



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



Annual Report
2006
(Stock Code : 27)



THE COMPANY

Galaxy Entertainment Group Limited was formerly called K. Wah Construction Materials Limited. K. Wah was a long established leading supplier of quality construction materials in Hong Kong and Mainland China.

In 1991, K. Wah was publicly listed on the Hong Kong Stock Exchange under the stock code 0027.

In 2005, K. Wah acquired Galaxy Casino, S.A., which holds a highly sought-after gaming concession in the Macau SAR and K. Wah Construction Materials Limited changed its name to Galaxy Entertainment Group Limited.

During 2006, Galaxy has firmly established itself as a world leading gaming operator, now operating 5 casinos, including its acclaimed StarWorld Hotel and Casino and having captured over 20% of the Macau gaming market.

Going forward, Galaxy will continue to capitalize on its valuable gaming concession, its casino operations and extensive Macau landbank through the expansion of its gaming and resort activities.

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MAJOR EVENTS

2006



January

- Extension of maturity date and reduction in interest rate of the HK\$2,372 million fixed rate notes

February

- Opening of Rio Casino
- New Group Corporate Office established in Hong Kong

June

- 2006 Annual General Meeting

August

- Macau Galaxy Entertainment 2006 FIVB World Grand Prix
- Successfully acquired Tarmac Asphalt Hong Kong Limited

September

- 2006 Interim Results Announcement
- Grand Opening of Grand Waldo Casino



MAJOR EVENTS



March

- Commenced significant recruitment campaign for StarWorld Hotel & Casino

April

- 2005 Annual Results Announcement
- Opening of President Casino

May

- Soft Opening of Grand Waldo Casino

October

- Opening of StarWorld Hotel & Casino
- A joint venture was awarded the rehabilitation contract for Lam Tei Quarry

December

- Topping out of the 27-Floor Cotai Hotel Tower
- Successfully placed US\$240 million Convertible Notes
- 2006 Macau Galaxy Entertainment International Marathon, Half Marathon and Mini Marathon



CORPORATE INFORMATION

CHAIRMAN

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

DEPUTY CHAIRMAN

Francis Lui Yiu Tung

EXECUTIVE DIRECTORS

Chan Kai Nang

Joseph Chee Ying Keung

Paddy Tang Lui Wai Yu, *JP*

William Lo Chi Chung (resigned with effect from 1st May 2007)

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**

Anthony Thomas Christopher Carter

* 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

REGISTERED OFFICE

Room 1606, 16th Floor

Hutchison House

10 Harcourt Road

Central, Hong Kong

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited

SOLICITORS

Richards Butler

Slaughter and May

Huen Wong & Co. in association with Fried, Frank,

Harris, Shriver & Jacobson LLP

Sa Carneiro & Pinheiro Torres

Leonel Alberto Alves

King & Wood

Guantao Law Firm

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

INVESTOR RELATIONS CONTACT

Please direct enquiries to :

Investor Relations Department

Tel: (852) 3150 1111

Fax: (852) 3150 1100

Email: ir@galaxyentertainment.com

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2007 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 Tuesday, 26th June 2007 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 2006;
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 time of 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 under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting."

4.2 "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 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 powers either during or after the Relevant Period be and is hereby generally and unconditionally approved;

NOTICE OF ANNUAL GENERAL MEETING

- (b) 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;
- (ii) the exercise of rights of subscription or conversion under the terms of any warrants issued by the Company or any securities which are convertible into shares of the Company;
- (iii) the exercise of any option under the Company's share option schemes 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 issued share capital of the Company on the date of the passing of this Resolution; (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 of 10% of the share capital of the Company in issue at the date of passing this Resolution), and this approval shall be limited accordingly; and

- (c) for the purposes of this Resolution:

"Relevant Period" means the period from the time of 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 authority given under this Resolution by an ordinary resolution of the shareholders of the Company 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 exclusions 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 recognized regulatory body or any stock exchange in, any territory outside Hong Kong)."

NOTICE OF ANNUAL GENERAL MEETING

4.3 “**THAT** conditional upon the passing of the Resolutions numbered 4.1 and 4.2 in the notice convening this meeting, the general mandate granted to the Directors of the Company to exercise the powers of the Company pursuant to paragraph (a) of the Resolution numbered 4.2 be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted by the Resolution numbered 4.1, provided that such amount shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company at the date of the passing of this Resolution.”

By Order of the Board of
Galaxy Entertainment Group Limited
Kitty Chan Lai Kit
Company Secretary

Hong Kong, 27th April 2007

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. Francis Lui Yiu Tung and Mr. James Ross Ancell shall retire by rotation at the meeting and, being eligible, offer themselves for re-election. Mr. Anthony Thomas Christopher Carter, being a new Director appointed by the Board, shall hold office until the meeting and being eligible, offers himself 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 for increasing flexibility and providing discretion to the Directors in managing the Company's capital base and in particular enabling the Company to maintain financing flexibility.

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, DBA

Dear Shareholders,

The Year 2006 has been a fruitful year for Galaxy Entertainment Group Limited ("Galaxy" or the "Group").

For the year ended 31st December 2006, revenue from Galaxy's gaming operation was HK\$3,389 million, representing a 50 times growth from the previous year. Following the subsequent opening of several new casinos as scheduled during the year, Galaxy was able to expand its market share to 19% as at the month of December 2006, which provides strong evidence that the Group has a well established position in the gaming and entertainment market of Macau.

ENORMOUS GROWING POTENTIAL FOR THE FUTURE OF THE TRAVEL INDUSTRY IN MACAU

The Eleventh Five-Year Plan of the Central Government of China promotes a fast track development of a diversified economy in Macau. Being the sole city in China open to the gaming industry, Macau is benefiting from the "visa-free travel" policy, resulting

in a rapid increase in the number of visitors. This rapid growth in visitor volumes commenced in 2003 and last year the number of visitors to Macau reached a record high of 22 million. The gross domestic product climbed to over MOP114 billion, representing a real compound growth rate of 16.6%. Unquestionably, the rapid growth in the gaming and travel industry is highly supportive of the fast growing economy of Macau.

ADHERING TO THE PRINCIPLES OF PRESERVATION, PERFECTION AND INNOVATION

Commencing operation since 2004 with one of the gaming licences granted by the Macau Government, Galaxy continues to adhere to three key business development principles, namely "preservation", "perfection" and "innovation". The Group is committed to "preserve" the unique cultural heritage of Macau, with the aim of merging its distinctive culture with Chinese tradition so as to appeal to visitors from all over the world. Building on the concept of mixing Western and Eastern management principles, Galaxy strives to "perfect" operating

CHAIRMAN'S STATEMENT

efficiency through the use of state-of-the-art information technology and is determined to create an exciting product and environment that appeals to the taste of both domestic and international travelers by introducing them to new experiences that are exciting and "innovative".

Looking ahead, the Group will proactively and prudentially invest in other areas when suitable opportunities arise and make the best deployment of its resources on the basis of the above three principles. With its extensive Asian experience accumulated over the years, Galaxy clearly understands that it should not just replicate Las Vegas in Macau, but instead create its own distinctive and extraordinary paradise for travelers. This capitalizes on the two totally different cultures of Macau and Mainland China and appeals to the tastes of Asian people, and offers a unique and exciting world-class experience to international visitors for either business or leisure.

In March this year, Macau received the Future Award 2007, for being considered the most promising future tourism destination in Asia awarded by the International Tourismus Börse (Trade fair for the International Tourism Industry) of Berlin. Additionally, in June this year the upcoming first Asian Gaming Expo and Conference will be held in Macau, demonstrating the highly recognized international status of Macau, fast becoming a unique world-class city for entertainment and travel.

BILLIONS OF INVESTMENT IN THE GAMING AND LEISURE INDUSTRY

To date, the Group has invested MOP8 billion in Macau. During the year under review, Galaxy's flagship StarWorld Hotel and Casino commenced operations on 19th October 2006, and is delivering solid results. We are delighted to have appointed Mr. Tony Leung, the renowned international super star as our spokesman for StarWorld Hotel. Our investment in marketing and promotion activities has already proved a success at StarWorld Hotel and our other casinos are widely recognized as deluxe, exquisite and prominent facilities, providing customers with high quality services. In March 2007, the "Jinmen" (StarWorld's Premium Club) was launched. Jinmen offers only the very best and most creative services and facilities to customers and delivers an unforgettable experience.

Presently, our development of Galaxy Mega Resort in Cotai has been in full swing. This project has a site area of 4,700,000 square feet and will be constructed in different stages. The 27 Floor Hotel Tower was "topped-out" in December and all other

construction work is well advanced. We are expecting to see the first phase of the development commence operations in 2008 as scheduled. Upon total "build-out", we expect Galaxy Cotai will become one of the largest resorts in Macau providing one-stop tourism and entertainment facilities in Cotai with a comprehensive range of gaming, entertainment, shopping, convention and other leisure services suitable for business or family guests.

FOCUSING ON STAFF TRAINING AND EXPANSION OF MANAGEMENT EXPERTISE

The Group sees its staff as its most valuable assets. Staff recruitment, retention and training are of the upmost importance to the Group. In calendar year 2006, we recruited and trained an additional 6,600 staff; bringing our total number of staff to 10,500 which is a 167% increase above the 2005 head count. In addition, the Group has established its own Centre of Excellence for Casino Training with a facility of 22,000 square feet for the promotion of professionalism and quality service. To support this goal of excellence, Galaxy has added to our Executive "Bench Strength" by recruiting an elite team of international management experts, further strengthening our competitive edge to differentiate ourselves from other leading market players.

Galaxy will continue to extend its reach into the tourism market and provide the best services and most comprehensive facilities available. We are fully committed to build Macau into a world-class international hub for entertainment and tourism in full support of the government's policy, and to deliver our valuable shareholders high investment returns.

Finally, I would like to take this opportunity to extend my heartfelt appreciation to all my fellow directors and dedicated and committed employees, for without their professionalism, loyalty and dedication to the Group, none of Galaxy's achievements over the past year would have been possible. I am looking forward to work with them all in the years ahead.

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

Hong Kong, 18th April 2007

GROWTH STRATEGY



Galaxy has capitalised on the fast growing gaming market in Macau to position itself as one of the dominant casino operators within the Macau gaming market.



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 for the community as a good corporate citizen, with a high level of transparency and accountability to shareholders. The Board has applied the principles in the Code on Corporate Governance Practices (“Code”) set out in Appendix 14 of the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (“Stock Exchange”).

THE BOARD

The Company is headed by the Board, which is responsible to lead and control the Company and its subsidiaries (“Group”) and direct and supervise the Group’s affairs. The Board sets strategies for the Company and monitors the performance of the management. The names and biographical details of the Directors (by category) and their relationships are set out in the Corporate Information on page 4 and Further Corporate Information on pages 39 to 41.

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 executive and 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.

CORPORATE GOVERNANCE REPORT

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.

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, Dr. William Yip Shue Lam and Mr. Anthony Thomas Christopher Carter were appointed for a fixed term of three years pursuant to their service contracts, which may be extended by another three-year term.

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. The ability to provide balanced and independent views and exercise independent judgement and to devote sufficient time and attention to the Company's affairs is an additional criterion for selecting non-executive directors. 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. Changes in the Board subsequent to the year are set out in the Report of the Directors on page 43.

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

CORPORATE GOVERNANCE REPORT

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.

Executive Board

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

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

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

Audit Committee

The Audit Committee of the Company has been in place since 1999. It comprises two independent non-executive Directors, Dr. Charles Cheung Wai Bun as the Chairman and Mr. James Ross Ancell, and a non-executive Director, 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 conform to the code provision requirements of the Code.

The Audit Committee meets at least twice a year, with the attendance of the Group Chief Financial Officer, Financial Controller and Qualified Accountant, the Company Secretary and the external 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.

CORPORATE GOVERNANCE REPORT

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;
- (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.

The Audit Committee made particular effort on internal control and risk management. It made a visit to the gaming and entertainment operations in Macau in January 2007 and was briefed on the possible risk areas and the appropriate internal control measures in place.

Remuneration Committee

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

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

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

CORPORATE GOVERNANCE REPORT

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

- (i) Review of the remuneration policy and structure for the Directors of the Company;
- (ii) Making recommendations to the Board on proposed Directors' fees (including Audit Committee and Remuneration Committee members' fees) after taking into account the Directors' fees for previous years, the Company's performance and level of activities in the current year, and other listed companies' payments, and submitting to shareholders for approval at the annual general meeting; and
- (iii) Determining the specific remuneration packages of all executive Directors after taking into account the remuneration policy and structure, the market benchmark, the contribution of and work performed by relevant Directors and their increasing job responsibilities.

The Directors' remuneration for the year ended 31st December 2006 is set out in note 9(a) to the financial statements.

BOARD AND BOARD COMMITTEE MEETINGS

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

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

Number of Meetings	Board Meetings (4)	Audit Committee Meetings (2)	Remuneration Committee Meeting (1)
EXECUTIVE DIRECTORS			
Dr. Lui Che Woo	2/4		
Mr. Francis Lui Yiu Tung	4/4		1/1
Mr. Chan Kai Nang	3/4		
Mr. Joseph Chee Ying Keung	4/4		
Mr. William Lo Chi Chung	4/4		
Mrs. Paddy Tang Lui Wai Yu	4/4		
NON-EXECUTIVE DIRECTOR			
Mr. Moses Cheng Mo Chi	2/4	2/2	
INDEPENDENT NON-EXECUTIVE DIRECTORS			
Dr. Charles Cheung Wai Bun	4/4	2/2	1/1
Mr. James Ross Ancell	4/4	2/2	
Dr. William Yip Shue Lam	4/4		1/1

CORPORATE GOVERNANCE REPORT

FINANCIAL REPORTING

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

Directors' Responsibility

The Directors acknowledge their responsibilities for preparing the financial statements of the Company, 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 2006, 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 2006. Accordingly, the Directors have prepared the financial statements on a going concern basis.

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

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 Independent 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 2006 are included in note 8 to the financial statements.

Fees for non-auditing services include HK\$554,000 for the services provided in respect of taxation consultancy services.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROLS

Internal Control Process

The Board acknowledges its responsibility to ensure that an effective internal control system is maintained to safeguard shareholders' investment and the Group's assets. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and manage rather than eliminate risks of failure in operations, and to ensure achievement of the Group's objectives.

The key procedures that the Board established to provide effective internal controls include the following:

- A clear organizational structure with defined lines of responsibility and delegation of authority is in place.
- Formal policies and procedures for financial planning and budgeting, information and reporting systems, monitoring the Group's operations and performance are established to ensure financial information reported is reliable and up to date.
- The day-to-day responsibility for implementation of these procedures and ongoing monitoring of risk and the effectiveness of risk control rests with the Management of each business unit.
- The internal audit function was established during 2006. Its function monitors the effectiveness of internal control structures and focuses on reviews of key operations and critical applications. The internal audit plan is submitted to the Audit Committee for approval annually. Findings and recommendations for any corrective action required are reported to the Audit Committee half yearly.

Annual assessment

A Risk Management process had been carried out to identify and assess the major risks facing its business units during 2006. To review the effectiveness of the system of internal control over financial, operational and compliance controls, the Board, through the Audit Committee, embarked upon a project in 2006. A reputable and experienced external consultant was employed to advise on the development of a Control Self Assessment process focused on the entertainment business due to its inherent risk. A thorough walkthrough of each key business process was conducted to identify material controls and control gaps. A set of detailed process flowcharts with narrative was developed to reflect the current practice in place. All identified material controls were incorporated in the Control Self Assessment sheets for testing, which was performed by the management of each key business unit. Testing results were submitted to Internal Audit for review. No significant issues needed to be brought to the Audit Committee's attention.

CORPORATE GOVERNANCE REPORT

Internal Audit Department

Reporting to the Audit Committee, the Internal Audit Department has unrestricted access to all functions, records, property, and personnel. Its primary responsibilities are to:

- Develop a flexible annual audit plan using appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan to the Audit Committee for review and approval.
- Implement the annual audit plan, as approved, including, and as appropriate, any special tasks or projects requested by management and the Audit Committee.
- Maintain a team of professional audit staff equipped with sufficient knowledge, skills, experience, and professional qualifications to meet the requirements of the internal audit functions.
- Establish quality audit programs to test internal controls and risk management practices effectively.
- Report and investigate all exceptions noted during internal audit work; and follow up on the implementation status of all agreed audit recommendations.
- Evaluate and assess significant new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.
- Issue periodic reports to the Audit Committee and management summarizing results of audit activities.

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.

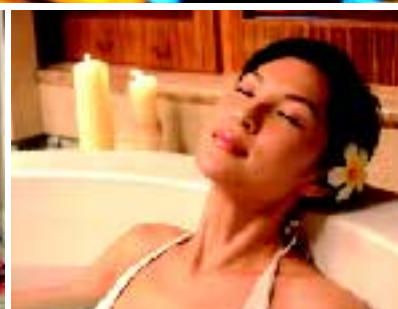
COMPLIANCE WITH THE CODE

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

GAMING AND ENTERTAINMENT



Capitalising on the two totally different cultures of Macau and Mainland China, Galaxy strives to appeal to the tastes of Asian people, and offer a unique and exciting world-class experience to international visitors traveling for either business or leisure.



MANAGEMENT DISCUSSION AND ANALYSIS

2006 was a year of milestones for the Galaxy Entertainment Group. We successfully opened our first flagship hotel and entertainment complex in October 2006, "StarWorld". In addition we opened three more City Club casinos earlier in the year – Rio Casino, President Casino, and Grand Waldo Casino. Now with five casinos in operation, the Group has firmly established itself as a major player within the Macau gaming market.

REVIEW OF OPERATIONS

Turnover and profit attributable to shareholders for the year ended 31st December 2006 was HK\$4,669 million and a loss of HK\$1,532 million respectively, as compared to a turnover of HK\$1,292 million and a profit of HK\$2,395 million for the year ended 31st December 2005. The Group's turnover was significantly higher than that of last year reflecting the significant expansion in its Gaming and Entertainment division, with the opening of four more casinos in Macau during the year, including the Group's flagship, StarWorld. With the opening of its VIP rooms at the end of November, StarWorld was only opened for one full month of operation during the financial year.

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

- Depreciation and amortisation charges of HK\$1.19 billion, including the HK\$998 million amortisation of the intangible asset arising from the acquisition of the Macau operation in July 2005;
- HK\$522 million in finance charges;
- Launch and pre-opening expenses associated with opening the four casinos and hotel during the year of HK\$268 million, including staff costs, training costs, marketing and branding.

It should be noted that the profit attributed to shareholders for the 2005 year included a gain of HK\$3,039 million arising from the acquisition of the Macau operation in July 2005.

The 2007 year will be the first full year of operation of the StarWorld Hotel and Casino and all of the City Club casinos and will be a more indicative year upon which to assess the financial success of the Group's Gaming and Entertainment division.

For the first three months of the 2007 financial year, the Group captured over HK\$3.7 billion of Macau gaming revenue, with over HK\$100 billion in VIP rolling turnover. Based on this, Galaxy's market share has now increased to 22% of the total Macau market as reported.

In the fourth quarter of 2006 the Macau gaming market grew at 44% year on year versus 2005, VIP win grew at 65% year on year, with the Mass market at a more modest growth of 15%. This confirms Galaxy's strategy of having a strong focus on the VIP gaming business.

The StarWorld property was developed by Galaxy at a cost of approximately HK\$3 billion, including the acquisition of the land. StarWorld's earnings potential is realised in 2007 and future years. The current market value of this property is significantly greater than its development cost as reflected in the Group's balance sheet. Galaxy is confident that its return on capital for its investment in StarWorld (EBITDA return on development cost) will exceed expectations. This is also true for Galaxy's City Club operations.

Furthermore, the Group's balance sheet does not reflect the current value of one of its most valuable assets, the significant land holding on the Cotai strip – being the site of its Mega Resort development.

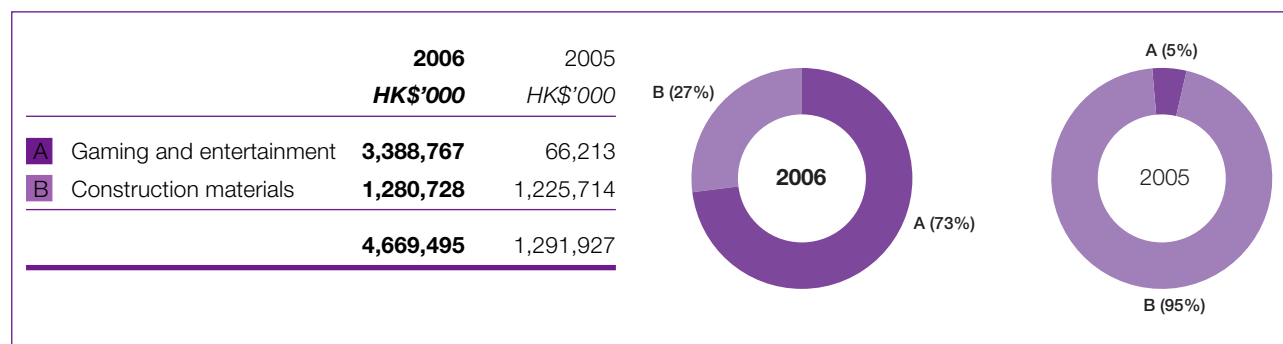
MANAGEMENT DISCUSSION AND ANALYSIS

Set out below is the segmental analysis of the Group's operating result for the year ended 31st December 2006.

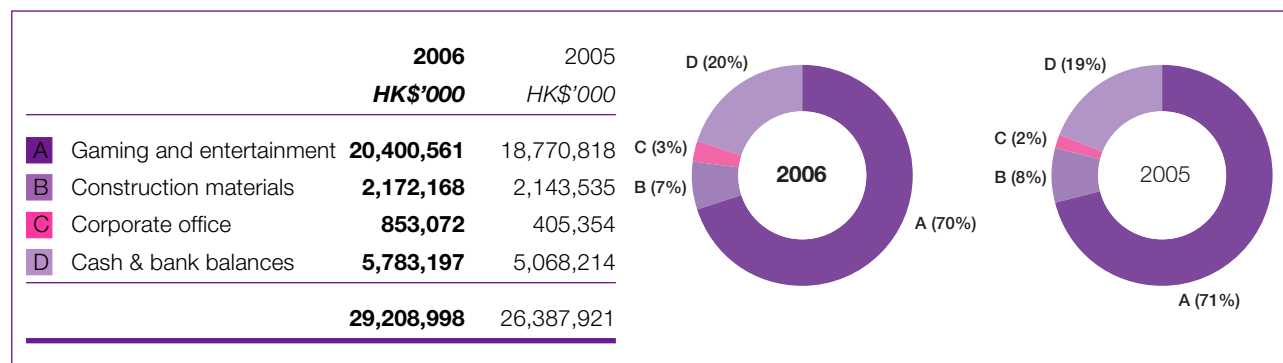
EBITDA EXCLUDING NON-RECURRING ITEMS

	Gaming and entertainment <i>HK\$'000</i>	Construction materials <i>HK\$'000</i>	Corporate <i>HK\$'000</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Company and subsidiaries:					
Operating profit/(loss)	(1,187,893)	52,512	102,934	(1,032,447)	2,591,824
Jointly controlled entities and associated companies:					
Share of profits less losses before tax	(2,803)	34,165	–	31,362	(73,913)
Depreciation and amortisation	1,067,757	121,188	1,194	1,190,139	536,068
Non-recurring items	267,868	–	(20,000)	247,868	(2,905,203)
EBITDA excluding non-recurring items	144,929	207,865	84,128	436,922	148,776

TURNOVER BY DIVISION

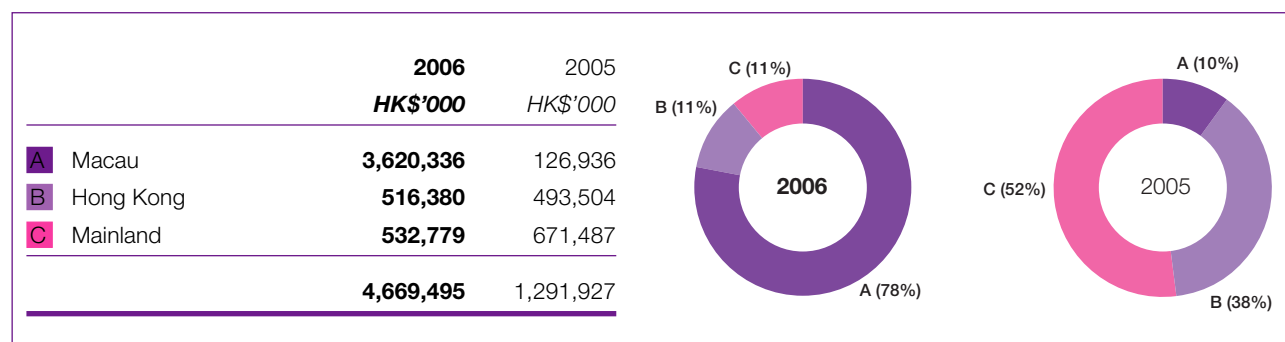


EMPLOYMENT OF TOTAL ASSETS

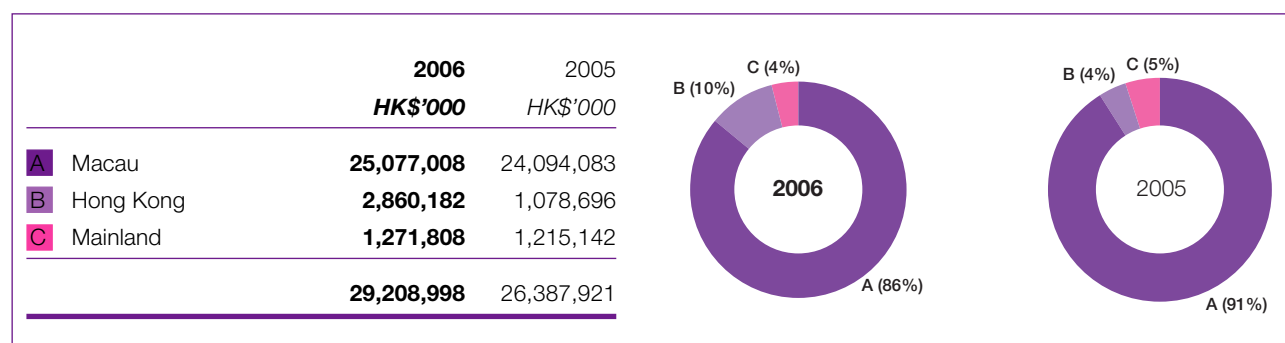


MANAGEMENT DISCUSSION AND ANALYSIS

TURNOVER BY GEOGRAPHICAL SPREAD



TOTAL ASSETS BY GEOGRAPHICAL SPREAD



MANAGEMENT DISCUSSION AND ANALYSIS

GAMING AND ENTERTAINMENT DIVISION

Overview

The Macau gaming market continued to record another year of double digit growth. Macau's net gaming revenues increased by over 20% to HK\$53 billion in 2006. Macau is now the world's largest gaming market and continues to experience one of the world's fastest growth rates in gaming revenues and tourist arrivals.

During 2006, Galaxy's gaming tables increased from 63 to over 500 representing approximately 20% of the number of tables in Macau, while Galaxy's slot machines increased from 75 to over 800, representing nearly 15% of slot machines in Macau. Galaxy's casinos generated net gaming revenues of HK\$7.3 billion for the year (of which HK\$3.4 billion is recognised in the financial statements due to the different accounting treatment of the arrangements with the City Club casinos).

Galaxy's market share of Macau net gaming revenues increased from 9% in the first half of 2006 to 17% in the second half year, following the opening of StarWorld and the three new City Club casinos. For the month of December 2006, Galaxy generated net gaming revenues of over HK\$1.1 billion representing a 19% market share.

In 2006, the Gaming and Entertainment division reported an operating loss of HK\$1,188 million.

In considering this result, it should be noted that this is reported after:

- Depreciation and amortisation charges of HK\$1,068 million, including the amortisation of the gaming licence of HK\$998 million;
- Non-recurring items of HK\$268 million which include the pre-opening expenses related to the opening of StarWorld and the three additional City Club casinos, including staff costs, training, launch, marketing and branding expenses.

As noted above, EBITDA of the Gaming and Entertainment division included only one full month of operation of StarWorld's VIP gaming tables (commenced operation on 26th November 2006).

2007 will be the first full year of operation for StarWorld and all of the City Club casinos and will be a more indicative year upon which to assess the financial performance of Galaxy's Gaming and Entertainment division.

As at 31st December 2006, the Group has HK\$6 billion in cash (including HK\$259 million restricted bank deposits classified as other non-current assets), which together with the cash flows from StarWorld, the City Club casinos and Galaxy's other operations, provides Galaxy with the necessary financial resources to develop and commence operations of the first phase of its Cotai Mega Resort by the end of 2008.

StarWorld

StarWorld, Galaxy's first flagship entertainment complex, at a cost of approximately HK\$3.0 billion, opened with its mass gaming operations on 19th October 2006. StarWorld's acclaimed VIP rooms began a phased opening on 26th November 2006. StarWorld has been specifically designed and themed to appeal to the tastes and preferences of the expanding gaming market. StarWorld's spectacular external lighting has changed the Macau skyline forever and will ensure that StarWorld is a "must-see" casino for all visitors to Macau.

StarWorld is strategically located in downtown Macau and is at the epi-centre in the heart of the "Strip" of the Macau gaming hub, together with Grand Lisboa, Wynn, and MGM. With StarWorld's unique U-shaped hotel configuration, all 500 hotel rooms and suites have outstanding panoramic water views.

MANAGEMENT DISCUSSION AND ANALYSIS

In March 2007, StarWorld completed and opened its VIP high-roller “Jinmen Room” and increased its VIP tables. Once being fully operational, the StarWorld complex will encompass 16,500 m² of gaming space, with over 250 gaming tables and 500 slot machines, together with 500 hotel rooms, suites and Presidential suites to cater for our VIPs. As a gourmet paradise, StarWorld offers an outstanding buffet, “Temptations”, exquisite Chinese cuisine at the award winning Jade Garden and Laurel restaurants, and our soon to be opened Japanese and Western fine dining restaurants. To cater for the increase in demand for conference and banquet facilities, our Grand Ballroom will be opened later this year. We are confident that the StarWorld offering of world-class service, outstanding facilities and our understanding of our valued customers’ preferences will underpin our success.

Cotai Mega Resort

The development of Galaxy’s luxurious Cotai Mega Resort is well advanced with the initial phase of this development scheduled to open in 2008. This phase includes over 25,000 m² of main gaming floor, which can accommodate up to 600 gaming tables and 1,000 slot machines and a 27 floor hotel tower with 1,500 hotel rooms and suites. Additional resort facilities include: spa, sauna, leisure facilities, an Asian paradise of gourmet food with over 20 restaurants, a range of selected specialty retail and extensive water entertainment and experience features.

Going forward, Galaxy’s Cotai development will be developed to include six to eight various star-rated hotels and resorts with up to 12,000 rooms, 1,500 gaming tables, 3,000 slot machines, extensive high-end retail and multiple convention, function and meeting facilities.

Galaxy’s Cotai development site is 4.7 million sq ft in size, making it one of Macau’s single largest development sites. This vast piece of land ensures Galaxy has the flexibility to grow and expand as business opportunities continue to evolve. As previously noted the current value of this most valuable asset has not yet been reflected on Galaxy’s balance sheet.

City Club Casinos

Galaxy’s City Club casinos experienced significant growth during 2006. During this year three additional city club casinos were opened – Rio Casino in late February, President Casino in late April, and Grand Waldo Casino in May.

The operations of the City Club casinos have continued to improve during 2006. The three new City Club casinos, combined with Galaxy’s original City Club casino, Waldo Casino, have helped Galaxy to secure a strong foothold in the Macau gaming market. The City Club casinos now operate over 280 gaming tables and 475 slot machines in Macau.

BOND ISSUE

As noted in the 2005 annual report, Galaxy successfully raised US\$600 million in 2005 through a bond offering. These bonds have been well received by the market, trading on the Singapore stock exchange, and now trade at a premium to their issue price.

CONVERTIBLE NOTE ISSUE

In December 2006, after being approached by a group of US investment funds the Group issued US\$240 million of zero coupon five year convertible notes. These funds, together with the proceeds of the Bond Issue, ensure that Galaxy has the necessary financial capacity to expand and enhance the competitiveness of the Galaxy Mega Resort.

CONSTRUCTION MATERIALS DIVISION

The Construction Materials division recorded a steady growth over last year both in terms of turnover and profit contribution. The division’s continuous focus on cost savings over the past few years has provided a very solid base in maintaining a competitive edge over its competitors. The division has been able to ride on the challenges brought about by softening market demand in Hong Kong and intensifying market competition on the Mainland.

Hong Kong and Macau

The division continues to ensure it maintains a cost effective operation and is highly competitive within the industry. This has enabled the operation in Hong Kong to achieve a good profit contribution amid reducing market demand. To further

MANAGEMENT DISCUSSION AND ANALYSIS

strengthen our market position and to broaden the earnings base, the division acquired 80% of Tarmac Asphalt Hong Kong Limited in August 2006. With this acquisition, in addition to broadening the division's earnings base, the division has enjoyed the synergistic cost savings resulting from combining the operations into one business entity. In October 2006, the division secured a rehabilitation contract with Hong Kong SAR Government at Lam Tei, New Territories through an entity in which the Group has a 36.5% interest. This contract will provide the division with long term supply of aggregates and operation base for further extending market coverage in Hong Kong.

Our construction materials operation in Macau continued to record encouraging growth in 2006 with increased sales volume and higher profit contribution. The production facilities have been further expanded during the year to cope with the increasing market demand.

Mainland

The market has remained highly competitive resulting in falling unit selling prices and narrowing gross margin. The division has consolidated its operations to achieve synergistic cost savings in order to maintain our competitiveness in the market. In respect of the joint ventures with leading steel manufacturers for the manufacture and sale of granulated blastfurnance slag (GGBS), all these joint ventures have made good profit contribution to the division. Further expansion in production facilities of these joint ventures will be carried out to cope with the increasing demand of GGBS in the market.



MANAGEMENT DISCUSSION AND ANALYSIS

The division's investment in cement joint ventures in Yunnan has progressed as planned. The Kunming cement operation has begun making a profit contribution to the division and the second phase production facilities construction work has been completed. The plant is presently under testing stage and is expected to commence production in the near future. In addition, the division has plans to invest in other areas in Yunnan to capitalise on the increasing demand brought about by Central Government's policy of developing the Western Region. In November 2006, the Group together with Kungang, commenced construction work on a new cement production facility in Baoshan, Yunnan. The plant is expected to commence production in 2008. The division will continue to look for valuable investment opportunities in Yunnan and it is envisaged that all these investments will provide a solid and steady profit growth to the division in the coming future.

LIQUIDITY AND FINANCIAL RESOURCES

The financial position of the Group has remained strong during the year. The shareholders' funds as at 31st December 2006 was HK\$13,633 million, a decrease of approximately 9% over that as at 31st December 2005 of HK\$14,932 million while the Group's total assets employed increased to HK\$29,209 million as compared to HK\$26,388 million as at 31st December 2005.

The Group continues to maintain a strong cash position. As at 31st December 2006, total cash and bank balances were HK\$5,783 million as compared to HK\$5,068 million as at 31st December 2005.

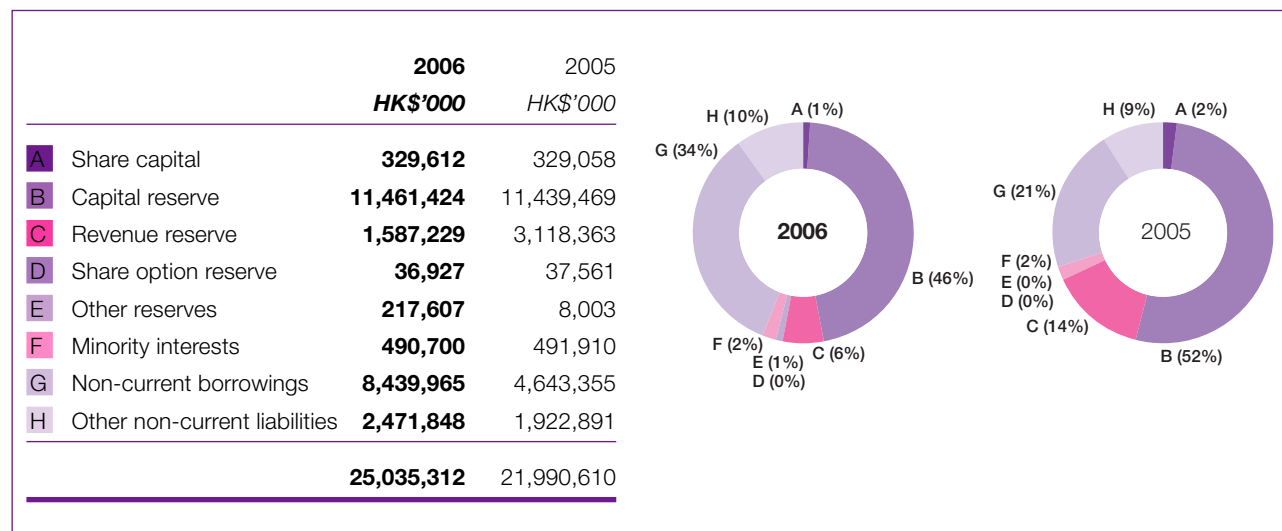
As at 31st December 2006, the Group's total indebtedness was HK\$8,973 million as compared to HK\$7,587 million as at 31st December 2005. The total indebtedness of the Group mainly comprises bank loans, fixed rate notes, guaranteed notes, convertible notes and other obligations which are largely denominated in Hong Kong Dollar and United States Dollar. The Group's borrowings are closely monitored to ensure a smooth repayment schedule to maturity.

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

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 14% as at 31st December 2006 as compared to 12% as at 31st December 2005.

SOURCES OF FUNDING



MANAGEMENT DISCUSSION AND ANALYSIS

TREASURY POLICY

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

CHARGES ON GROUP ASSETS

Leasehold land with net book values of HK\$217 million (2005: HK\$221 million) and bank deposits of HK\$259 million (2005: HK\$259 million) have been pledged to secure banking facilities.

GUARANTEES

The Company has executed guarantees in favour of banks in respect of facilities granted to subsidiaries amounting to HK\$210 million (2005: HK\$262 million), of which HK\$175 million (2005: HK\$124 million) have been utilised.

The Group has executed guarantees in favour of a bank in respect of facilities granted to an associated company amounting to HK\$9 million (2005: nil). At 31st December 2006, facilities utilised amounted to HK\$9 million (2005: nil).

EMPLOYEES AND REMUNERATION POLICY

As at 31st December 2006, the Group, excluding associated companies and jointly controlled entities, employed around 10,500 employees in Hong Kong, Macau and Mainland China. Employee costs, excluding Directors' emoluments, amounted to HK\$924 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 executives 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.



SOLID FOUNDATION



We are the most integrated and long established quality construction materials supplier in Hong Kong, with significant presence in Macau and major cities across the Mainland.



GAMING AND ENTERTAINMENT EXPERTISE

Galaxy Casino, S.A. ("Galaxy") has actively recruited a highly skilled and qualified team of gaming and casino executives whom have extensive Asian specific gaming expertise and experience. Many of these executives have spent their entire careers within Asian casinos.

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

The profile of our most senior gaming executives is detailed below:

David Craig Philip Banks, aged 55, Group Chief Operating Officer. He was the former Chief Executive Officer of Casinos for Tabcorp Ltd in Australia responsible for Star City Casino in Sydney, Jupiters Casino in Gold Coast Queensland, Treasury Casino Brisbane, and Townsville Casino in Queensland. As the former Chief Operating Officer & Chief Executive Officer of Star City Ltd., former President and Director of The Australian Casino Association, David has 10 years senior executive experience in the casino industry.

Nigel Barclay Morrison, aged 48, Group Chief Financial Officer. He was the former Chief Financial Officer and Chief Operating Officer of Crown Limited in Melbourne Australia, and Chief Executive of The Federal Group, the largest private casinos and gaming company in Australia. He is a former partner of the Corporate Finance division of Ernst & Young, specializing in the gaming industry. With a Bachelor Degree of Commerce from Melbourne University, he is a Chartered Accountant and a member of the Securities Institute in Australia with 20 years experience in the gaming industry.

Ciaran Pearse Carruthers, aged 38, Chief Operating Officer, StarWorld Hotel & Casino. He has 19 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 15 years, consulting to various Casino Groups such as: Crown, Tabcorp and Pagcor and he has been with Galaxy since late 2002 and was previously Senior Vice President – City Clubs.

Albert Emile Davia, aged 46, Vice President of City Clubs. He has 22 years experience in the gaming and resort industry in various countries including, Singapore, Australia, Malaysia and Macau. He has specialized in the VIP gaming industry for the past 16 years, dealing with VIP players from the Asian region, the Casinos in which he has run VIP operations include: Sky City, Adelaide and Crown Casino, Melbourne.

Kwa Yew Seng, aged 55, 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, 20 of which were in the casino industry, in particular at Burswood Casino, Western Australia.

Bernard Francis Millman, aged 53, Financial Controller (Casino). Bernard holds a Bachelor Business (Hospitality Management) Degree from Royal Melbourne Institute of Technology. He has had 29 years experience in financial management and has held various senior management positions, including general manager and financial controller, in international hotels and casinos in Australia and the Asia Pacific region. Casinos in which he worked have included: Alice Springs, Jupiters and Darwin all located in Australia and Christmas Island Casino on Christmas Island. He has represented the hotel and gaming industry in Australia in a review of tax legislation.

GAMING AND ENTERTAINMENT EXPERTISE

Gary Woollard, aged 52, Casino General Manager of the Grand Waldo Casino. Gary has 22 years' experience in the gaming industry in Australia and Europe prior to joining Galaxy. He has held positions at the following Casinos: Adelaide Casino, Star City Sydney, Korona Casino Moscow and both Waldo Casino and Grand Waldo Macau.

Working alongside our experienced expatriate management team are the highly experienced and qualified local staff. The fusion of international management experience and in-depth knowledge of local culture positions Galaxy to stay ahead of our competitors.

All of this experience and the continued development of our management competence results in highly efficient and effective casino operations. Our international standard casinos are positioned to provide an outstanding customer service in a safe, secure and hospitable environment 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.

Galaxy understands that our people are our greatest asset. We ensure that our human resource practices are continually benchmarked against those of our competitors together with our remuneration packages to ensure we maintain our competitiveness in a fast moving marketplace.

We are committed to the practice of career path development for our management and staff and continually provide training in new skills and competences so that our dealers and other staff 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 has and will continue to provide many different opportunities for growth within Galaxy. Since inception, Galaxy has adopted a position of rewarding dedication and ability with promotion. This policy of internal promotion, together with the many opportunities available as a result of our phenomenal expansion and growth, is both an effective staff and management recruitment and retention tool.

GOOD CORPORATE CITIZENSHIP

As a socially-responsible corporation, the Group continues to demonstrate its strong commitment to contributing to the communities in which it operates.

In recent years, corporate social responsibility (CSR) is a public common focus and nowadays it is becoming a social culture. We fully realise the importance of CSR as a natural part of the business process. To fulfill social responsibility is our on-going commitment to sustain the best return to the shareholders by acquiring support and recognition in the society. We encourage our staff and their family members to actively take part in social voluntary services and community activities. We believe that through helping those in needs, it provides a good opportunity for our staff to establish themselves as responsible and caring citizens. After years of staff participation in community activities, we are proud that this “caring” culture has been established within the Group.

IN HONG KONG

In addition to making donations to charitable organisations and participating in community activities, our Construction Materials Division has initiated various voluntary service programmes. A volunteer team of over 50 staff members was formed in 2006 and all of them have been given adequate volunteer training by professional social workers before they are personally involved as front line volunteers to demonstrate their care to the society and provide concrete support to the less privileged groups in Hong Kong.

During the year, the major social activities organized or participated by our staff include:

- “Computer Equipment Donation Program” jointly organized with Evangelical Lutheran Church of Hong Kong (ELCHK)
- “Dress Special Day” organized by Hong Kong Community Chest
- “Uncle Long Leg Mail Box” organized by ELCHK
- “Heart to Heart Project” organized by The Hong Kong Federation of Youth Groups
- “Challenging 12 Hours” organized by Sowers Action
- “KWCM Blood Donation Day” jointly organized with Hong Kong Red Cross
- “3+3 Accompanying Programme” jointly organized with ELCHK

In recognition of our continuous community efforts and contributions to the society, we were awarded the “5 Consecutive Years Caring Company Logo 2002 – 2007” by the Hong Kong Council of Social Services.

Going forward, we and our people are to continue our commitment in CSR and provide practical and financial help to those less fortunate in Hong Kong.

GOOD CORPORATE CITIZENSHIP

IN MACAU

During the year, our Gaming and Entertainment Division has continued to practise good corporate citizenship through active participation in community activities including:

- Sports

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

- Title sponsor of "Macau Galaxy Entertainment 2006 FIVB World Grand Prix"
- The 53rd Macau Grand Prix
- Title sponsor of "2006 Macau Galaxy Entertainment International Marathon, Half Marathon and Mini Marathon"
- Participation in charity events

We believe that social commitment involves not merely charitable contributions to our communities, but also through participation in the community welfare activities. During the year, we made contributions to the Tung Sin Tong and Macao Daily News Readers' Fund. We also encouraged our staff to participate in the charitable activities including the "Walk For a Million" organized by Macao Daily News Readers' Fund.

- Scholarship

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

- Macao Polytechnic Institute

INVESTOR RELATIONS

In recognition of the importance of our shareholders and investors, the Group has this year established a dedicated Investor Relations department.

The Group is committed to keeping the investment community fully informed about the Company's activities through prompt disclosure of information with a high degree of transparency.

The Group's financial and operational information is disseminated in the annual and interim reports, in addition to the holding of the Annual General Meeting.

Immediately following the announcement of our results, press conferences, analysts briefings and investor meetings are held to update and inform the investment community.

Senior management regularly meets with research analysts and institutional investors, attends and presents at major investors' conferences and participates in non-deal roadshows in Hong Kong and overseas. The Group will also host tours for research analysts to visit operations in Macau and other functions for the stock broking community.

All Company announcements and releases, further investor relations information and information about our operations may be accessed from the Galaxy website, www.galaxyentertainment.com.

FINANCIAL CALENDAR

DATES	EVENTS
13th September 2006	Announcement of results for the six months ended 30th June 2006
18th April 2007	Announcement of results for the year ended 31st December 2006
26th June 2007	2007 Annual General Meeting

FIVE-YEAR SUMMARY

	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000
CONSOLIDATED PROFIT AND LOSS STATEMENT					
Turnover	1,010,999	1,130,894	1,299,143	1,291,927	4,669,495
Profit/(loss) attributable to shareholders	62,328	40,205	55,886	2,395,269	(1,531,546)
Dividends	24,829	25,168	25,805	–	–
Earnings/(loss) per share (cents)	5.1	3.2	4.4	110.7	(46.5)
Dividend per share (cents)	2.0	2.0	2.0	–	–
CONSOLIDATED BALANCE SHEET					
Property, plant and equipment, investment properties and leasehold land and land use rights	740,946	802,153	787,028	2,889,283	5,566,921
Intangible assets	–	–	–	16,493,230	15,520,486
Jointly controlled entities and associated companies	211,571	253,547	266,893	300,778	387,250
Other non-current assets	240,974	240,727	408,883	595,120	951,697
Net current assets	362,758	481,179	507,958	1,712,199	2,608,958
Employment of capital	1,556,249	1,777,606	1,970,762	21,990,610	25,035,312
Represented by:					
Share capital	124,321	125,893	129,648	329,058	329,612
Reserves	1,268,249	1,288,370	1,295,616	14,603,396	13,303,187
Shareholders' funds	1,392,570	1,414,263	1,425,264	14,932,454	13,632,799
Minority interests	145,334	147,891	39,025	491,910	490,700
Non-current borrowings	–	200,800	311,580	4,643,355	8,439,965
Other non-current liabilities	18,345	14,652	14,020	1,778,531	2,351,697
Provisions	–	–	180,873	144,360	120,151
Capital employed	1,556,249	1,777,606	1,970,762	21,990,610	25,035,312
Net assets per share (dollars)	1.12	1.12	1.10	4.54	4.14

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

FURTHER CORPORATE INFORMATION

BIOGRAPHICAL INFORMATION OF DIRECTORS

Executive Directors

Dr. Lui Che Woo, *GBS, MBE, JP, LLD, DSSc, DBA*, aged 77, 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 50 years' experience in quarrying, construction materials and property development. He was the Founding Chairman of the Institute of Quarrying in the UK (Hong Kong Branch) and Chairman of the Tung Wah Group of Hospitals. Dr. Lui is also the Founding Chairman of The Federation of Hong Kong Hotel Owners, the President of Tsim Sha Tsui East Property Developers Association, the Founding President of Hong Kong -Guangdong Economic Development Association and an Honorary President of Hong Kong - Shanghai Economic Development Association. Further, Dr. Lui was a Committee Member of the 9th Chinese People's Political Consultative Conference, a member of the Selection Committee for the First Government of the HKSAR and a member of the Election Committee of the HKSAR. Dr. Lui was awarded the Gold Bauhinia Star of the Government of the HKSAR in July 2005. Dr. Lui has been again elected as a member of the Election Committee of the HKSAR in December 2006. Dr. Lui is the father of Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu.

Mr. Francis Lui Yiu Tung, aged 51, joined the Group in 1979. He has been an executive director of the Company since June 1987 and is the Deputy Chairman of the Company. Mr. Lui is also an executive director of K. Wah International Holdings Limited, 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 61, 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 49, joined the Group in 1982. He has been an executive director of the Company since April 2004 and was appointed 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 25 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 46, joined the Group in 2003 and has been an executive director of the Company since April 2004. 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 24 years of broad experience in auditing, accounting, financial management, corporate finance, strategic planning and investor relations.

* resigned with effect from 1st May 2007

FURTHER CORPORATE INFORMATION

Ms. Paddy Tang Lui Wai Yu, *JP*, aged 53, 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 was a member of the Election Committee of the HKSAR. She is also a member of various public and social service organizations, including the Board of Ocean Park Corporation, the Hong Kong Arts Development Council, the Statistic Advisory Board and the Standing Committee on Company Law Reform. Ms. Tang has been again elected as a member of the Hotel Sub-sector of Election Committee for the Third Term Chief Executive of the HKSAR in December 2006. Ms. Tang is the daughter of Dr. Lui Che Woo and the elder sister of Mr. Francis Lui Yiu Tung.

Non-executive Directors

Dr. Charles Cheung Wai Bun, *JP*, aged 70, joined the Group in 1986. He was appointed an executive director of the Company in June 1987 and became an independent non-executive director since 1995. Dr. Cheung holds an honorary doctor's degree, a master's degree in business administration and a bachelor of science degree. He had 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, Shanghai Electric Group Company Limited and Prime Investments Holdings Limited. He is the Senior Advisor of Metropolitan Bank & Trust Company, Philippines. 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. He is also a Council Member of The Hong Kong Institute of Directors.

Mr. Moses Cheng Mo Chi, *GBS, OBE, JP*, aged 57, 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 53, 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 69, 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.

FURTHER CORPORATE INFORMATION

Mr. Anthony Thomas Christopher Carter, aged 61, joined the Group in 2003 and has been a non-executive director of the Company since 18th April 2007. Mr. Carter holds a L.L.B. (Hons) from the University of Leeds in England. He is a solicitor in the United Kingdom, Hong Kong and Australia and a Notary Public in Hong Kong. He has extensive experience in strategic planning and business management as well as in corporate finance and development.

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.

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 for the year ended 31st December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal subsidiaries, jointly controlled entities and associated companies of the Company are primarily engaged in gaming and entertainment in Macau and the manufacture, sale and distribution of construction materials in Hong Kong, Macau and Mainland China, and their principal activities and other particulars are set out in note 42 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2006 are set out in the consolidated profit and loss statement on page 54 of this annual report.

No interim dividend (2005: nil) was paid during the year. The Directors have resolved not to recommend any final dividend for the year ended 31st December 2006 (2005: nil).

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 27 to the financial statements.

During the year, 300,000 new shares, 1,070,000 new shares, 300,000 new shares and 3,868,000 new shares were issued at the prices of HK\$0.5333, HK\$0.5216, HK\$0.514 and HK\$4.59 per share respectively pursuant to share option schemes of the Company as a result of the exercise of share options by option holders.

DEBT SECURITIES

Details of the fixed rate notes in the aggregate principal amount of HK\$2,371,805,067 issued by the Company are set out in note 30 to the financial statements.

Details of the guaranteed senior fixed rate and floating rate notes in the aggregate principal amount of US\$600,000,000 issued by Galaxy Entertainment Finance Company Limited, a subsidiary of the Company, which are listed on the Singapore Stock Exchange are set out in note 30 to the financial statements.

On 14th December 2006, the Company issued an aggregate principal amount of US\$240,000,000 zero coupon convertible notes due 2011 (the "Notes"), details of which are set out in note 30 to the financial statements. Further details of the Notes, including the estimated amount and use of proceeds, were set out in the Company's announcement dated 6th December 2006.

REPORT OF THE DIRECTORS

DEALINGS IN LISTED SECURITIES

The Company has not redeemed any of its shares or listed debt securities during the year ended 31st December 2006. Neither the Company nor any of its subsidiaries have purchased or sold any of the Company's shares or listed debt securities during the year.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in note 29 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. Mr. Anthony Thomas Christopher Carter was appointed a Director of the Company with effect from 18th April 2007. Mr. William Lo Chi Chung resigned as a Director of the Company with effect from 1st May 2007. Their biographical details are set out on pages 39 to 41 of this annual report.

In accordance with Article 106(A), Mr. Francis Lui Yiu Tung and Mr. James Ross Ancell shall retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. In accordance with Article 97, Mr. Anthony Thomas Christopher Carter shall hold office until the forthcoming annual general meeting and, being eligible, offers himself 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 at the forthcoming annual general meeting, the following directors' fees in respect of the year ended 31st December 2006 will be payable to the Directors:

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in this Report of the Directors, no contracts of significance in relation to the Group's business, to which the Company or its subsidiaries was a party and in which a Director has or had a material beneficial interest, whether directly or indirectly, subsisted on 31st December 2006 or at any time during the year.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SECURITIES AND SHARE OPTIONS

At 31st December 2006, 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

(a) 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	60.83
Francis Lui Yiu Tung	11,498,896	–	436,753,661 ⁽³⁾	1,905,118,394 ⁽²⁾	2,353,370,951	71.40
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	58.07
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 (HK\$)	Other Interests (HK\$)	Total Interests (HK\$)
Lui Che Woo	–	2,320,898,413 ⁽⁴⁾	2,320,898,413
Francis Lui Yiu Tung	50,906,654 ⁽³⁾	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. K. Wah International Holdings Limited ("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 have interest in those shares in the Company interested by the trusts and in those shares in the Company in which KWIH was interested as aforesaid.

REPORT OF THE DIRECTORS

- (3) 111,138,039 shares and debentures of the Company in the amount of HK\$50,906,654 were held by Recurrent Profits Limited controlled by Mr. Francis Lui Yiu Tung. 231,615,731 underlying shares of the Company were interested by Top Notch Opportunities Limited ("Top Notch"). 60,000,000 shares and 33,999,891 underlying shares in the Company were interested by Kentlake International Investments Limited ("Kentlake"). Both Top Notch and Kentlake 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 beneficiaries, are deemed to have interest in these debentures.

All the interests stated above represent long positions.

Save as disclosed above, as at 31st December 2006, none of the Directors of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

SUBSTANTIAL SHAREHOLDERS' INTERESTS

At 31st December 2006, the interests or short positions of every person (not being a Director or chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name	Number of Shares (Long Position)	Percentage of Issued Share Capital	Number of Shares (Short Position)	Percentage of Issued Share Capital
Brightwealth Investments Limited	265,615,622	8.06	265,615,622	8.06
City Lion Profits Corp.	1,160,449,206	35.21	–	–
Davos Investment Holdings Private Limited	265,615,622	8.06	265,615,622	8.06
Guoco Group Limited	265,615,622	8.06	265,615,622	8.06
Guoline Capital Assets Limited	265,615,622	8.06	265,615,622	8.06
Guoline Overseas Limited	265,615,622	8.06	265,615,622	8.06
HL Holdings Sdn Bhd	265,615,622	8.06	265,615,622	8.06
Hong Leong Company (Malaysia) Berhad	265,615,622	8.06	265,615,622	8.06
Hong Leong Investment Holdings Pte. Ltd.	265,615,622	8.06	265,615,622	8.06
HSBC International Trustee Limited	1,905,132,394 ^(Note)	57.80	–	–
Kwek Holdings Pte Ltd	265,615,622	8.06	265,615,622	8.06
Kwek Leng Kee	265,615,622	8.06	265,615,622	8.06
K. Wah International Holdings Limited	614,984,047	18.66	–	–
Pedro Ho On Chun	176,250,301	5.35	–	–
Quek Leng Chan	265,615,622	8.06	265,615,622	8.06
Top Notch Opportunities Limited	231,615,731	7.03	–	–

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 interests of:

- (i) 1,905,118,394 shares and the debentures in the amount of HK\$2,320,898,413 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 K. Wah International Holdings Limited;
 - 1,160,449,206 shares in the Company were also interested by City Lion Profits Corp.;

REPORT OF THE DIRECTORS

- (ii) 231,615,731 underlying shares in the Company between Mr. Francis Lui Yiu Tung and Top Notch Opportunities Limited;
- (iii) 60,000,000 shares and 33,999,891 underlying shares in the Company between Mr. Francis Lui Yiu Tung and Mr. Pedro Ho On Chun;
- (iv) 265,615,622 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.

Save as disclosed above, as at 31st December 2006, the Company had not been notified by any persons who had interests or short positions in the shares or underlying shares of the Company which are required to be recorded in the register required to be kept under section 336 of the SFO.

SHARE OPTION SCHEME

The share option scheme of the Company (the “Share Option Scheme”) was adopted by the shareholders of the Company on 30th May 2002 and approved by the shareholders of KWIH, the then holding company of the Company, on the same 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

(3) Total number of shares available for issue

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

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

As at the date of this annual report, the total number of shares available for issue under the Share Option Scheme was 329,464,936 shares, which represented approximately 9.99% 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.

REPORT OF THE DIRECTORS

(9) The remaining life of the Share Option Scheme

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

The particulars of the movements in the options held by each of the Directors of the Company, the employees of the Company in aggregate and other participants granted under the Share Option Scheme or under any other share option schemes of the Company during the year ended 31st December 2006 were as follows:

Name	Date of grant	Number of Options			Held at 31st December 2006	Exercise price (HK\$)	Exercise period
		Held at 1st January 2006	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	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	21st Oct 2005	3,000,000	–	–	3,000,000	4.5900	22nd Oct 2005 – 21st Oct 2011
	21st Oct 2005	400,000	–	–	400,000	4.5900	22nd Oct 2006 – 21st Oct 2011
Charles Cheung Wai Bun	21st Oct 2005	250,000	–	–	250,000	4.5900	22nd Oct 2006 – 21st Oct 2011
Moses Cheng Mo Chi	28th Feb 2003	300,000	–	–	300,000	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 (in aggregate)	20th May 1998	400,000	–	–	400,000	0.5333	20th May 1999 – 19th May 2008
	30th Dec 1999	228,000	–	–	228,000	0.5216	30th Dec 2000 – 29th Dec 2009
	28th Feb 2003	280,000	–	–	280,000	0.5140	1st Mar 2004 – 28th Feb 2013
	21st Oct 2005	15,900,000	2,750,000 ^(a)	400,000	12,750,000	4.5900	22nd Oct 2005 – 21st Oct 2011
	21st Oct 2005	#5,260,000	1,118,000 ^(b)	418,000	3,724,000	4.5900	22nd Oct 2006 – 21st Oct 2011
Others	20th May 1998	300,000	300,000 ^(c)	–	–	0.5333	20th May 1999 – 19th May 2008
	30th Dec 1999	1,070,000	1,070,000 ^(d)	–	–	0.5216	30th Dec 2000 – 29th Dec 2009
	28th Feb 2003	300,000	300,000 ^(d)	–	–	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

REPORT OF THE DIRECTORS

- # On reclassification of a total number of 302,000 share options from “Others” to “Employees” after the option holder became an employee of a subsidiary of the Company.

Notes:

- a. 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\$6.82.
- b. 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\$7.67.
- c. The weighted average closing price of the Company's shares immediately before the date on which the options were exercised during the year was HK\$6.40.
- d. The weighted average closing price of the Company's shares immediately before the date on which the options were exercised during the year was HK\$6.60.

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

No options were granted or cancelled during the year.

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

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

CONNECTED TRANSACTION

On 3rd October 2006, a contract (the “Rehabilitation Contract”) for the rehabilitation of Lam Tei Quarry at Castle Peak Road, Lam Tei, New Territories, Hong Kong was entered into between the Government of Hong Kong and AHK Aggregates Limited (the “Contractor”), which is held as to 36.5% by the Group and as to 63.5% by Asia Stone Company Limited (“Asia Stone”). The Group's proportionate share of the total capital commitment in the Contractor was HK\$72,562,000. The formation of the Contractor to tender for the Rehabilitation Contract constituted a connected transaction for the Company by reason of the fact that Asia Stone is a subsidiary of a substantial shareholder in a non wholly owned subsidiary of the Company. Details of the transaction were set out in the Company's announcement dated 3rd October 2006.

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS

1. 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) continued to lease from Jia Hui Da Real Estate Development Co., Ltd. Shanghai (上海嘉匯達房地產開發經營有限公司), which is an indirect non wholly owned subsidiary of KWIH, the office units located at Units 1802-1804, Shanghai K. Wah Centre, No. 1010, Huaihai Zhong Road, Xuhui District, Shanghai, the PRC at an aggregate monthly rental of US\$21,528 (equivalent to approximately HK\$167,920) pursuant to the Tenancy Agreements (collectively the "Tenancy Agreements") entered into on 2nd June 2005. The leases are for a 3-year term from 1st June 2005 to 31st May 2008. 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.

In accordance with paragraph 14A.38 of the Listing Rules, the Board of Directors engaged the auditors of the Company to perform certain agreed-upon procedures on the above continuing connected transactions in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have reported to the Board of Directors of the Company that:

- (1) the transactions have received the approval of the Company's Board of Directors;
- (2) the transactions have been entered into in accordance with the Tenancy Agreements governing the transactions; and
- (3) the aggregate annual rental under the Tenancy Agreements amounted to HK\$2,015,020 for the year ended 31st December 2006 and is within the corresponding annual cap.

REPORT OF THE DIRECTORS

2. The guaranteed unsecured revolving loan facility in the maximum amount of HK\$330 million (the "Facility") granted by a wholly owned subsidiary of the Company, namely Brighten Lion Limited to Great Place Developments Limited, a wholly owned subsidiary of KWIH, pursuant to a loan agreement (the "Loan Agreement") entered into on 22nd July 2002 was subsisting as at year-end. The Facility is guaranteed by KWIH and bears interest at 2.38% per annum over three-month HIBOR with a final maturity date of 12th September 2007. No annual cap is involved in the Facility. Details of the Facility were included in the joint announcement of the Company and KWIH dated 22nd July 2002 and the circular of the Company dated 5th August 2002.

A loan in the principal amount of HK\$120,000,000 had been drawn and fully paid during the year. As at 31st December 2006, no amount was outstanding.

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.

In accordance with paragraph 14A.38 of the Listing Rules, the Board of Directors engaged the auditors of the Company to perform certain agreed-upon procedures on the above continuing connected transactions in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have reported 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) the Facility was granted in accordance with the terms of the Loan Agreement and the interest received for the year ended 31st December 2006 is calculated in accordance with the Loan Agreement.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements and adjusted as appropriate, is shown on page 38 of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December 2006, 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).

REPORT OF THE DIRECTORS

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\$13,349,000 (2005: HK\$3,194,000).

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

The financial statements of the Company for the year ended 31st December 2006 have been audited by PricewaterhouseCoopers, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board

Dr. Lui Che Woo

Chairman

Hong Kong, 18th April 2007

REPORT OF THE INDEPENDENT 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
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of Galaxy Entertainment Group Limited (the "Company") set out on pages 54 to 124, which comprise the consolidated and company balance sheets as at 31st December 2006, and the consolidated profit and loss statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

RESPONSIBILITY OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

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

RESPONSIBILITY OF THE AUDITORS

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

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

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

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Group and the Company as at 31st December 2006 and of the loss and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 18th April 2007

CONSOLIDATED PROFIT AND LOSS STATEMENT

For the year ended 31st December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
Turnover	7	4,669,495	1,291,927
Cost of sales		(4,255,222)	(1,181,342)
Gross profit		414,273	110,585
Excess of fair value of net assets acquired over cost of acquisition of subsidiaries		—	3,039,019
Other income		262,325	110,010
Administrative expenses		(683,422)	(196,662)
Other operating expenses		(1,025,623)	(471,128)
Operating (loss)/profit	8	(1,032,447)	2,591,824
Finance costs	10	(522,226)	(118,157)
Share of profits less losses of			
Jointly controlled entities		29,623	(77,975)
Associated companies		(612)	2,696
(Loss)/profit before taxation		(1,525,662)	2,398,388
Taxation	11	(5,848)	(1,683)
(Loss)/profit for the year		(1,531,510)	2,396,705
Attributable to:			
Shareholders	29	(1,531,546)	2,395,269
Minority interests		36	1,436
		(1,531,510)	2,396,705
		HK cents	HK cents
(Loss)/earnings per share	13		
Basic		(46.5)	110.7
Diluted		(46.5)	109.4

CONSOLIDATED BALANCE SHEET

At 31st December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	3,882,504	1,187,663
Investment properties	16	62,500	63,000
Leasehold land and land use rights	17	1,621,917	1,638,620
Intangible assets	18	15,520,486	16,493,230
Jointly controlled entities	20	386,520	279,432
Associated companies	21	730	21,346
Other non-current assets	22	951,697	595,120
		22,426,354	20,278,411
Current assets			
Inventories	23	94,522	86,971
Debtors and prepayments	24	863,138	883,791
Taxation recoverable		2,546	1,039
Other investments	25	39,241	69,495
Cash and bank balances	26	5,783,197	5,068,214
		6,782,644	6,109,510
Total assets		29,208,998	26,387,921

CONSOLIDATED BALANCE SHEET

At 31st December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
EQUITY			
Share capital	27	329,612	329,058
Reserves	29	13,303,187	14,603,396
Shareholders' funds		13,632,799	14,932,454
Minority interests		490,700	491,910
Total equity		14,123,499	15,424,364
LIABILITIES			
Non-current liabilities			
Borrowings	30	8,439,965	4,643,355
Deferred taxation liabilities	31	1,778,588	1,778,531
Derivative financial instruments	30	573,109	—
Provisions	32	120,151	144,360
		10,911,813	6,566,246
Current liabilities			
Creditors and accruals	33	3,633,845	1,452,047
Current portion of borrowings	30	532,888	2,943,806
Taxation payable		6,953	1,458
		4,173,686	4,397,311
Total liabilities		15,085,499	10,963,557
Total equity and liabilities		29,208,998	26,387,921

Francis Lui Yiu Tung

Director

Chan Kai Nang

Director

COMPANY BALANCE SHEET

At 31st December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
ASSETS			
Non-current assets			
Subsidiaries	19	1	1
Current assets			
Amounts due from subsidiaries	19	14,973,752	15,715,425
Loans receivable from subsidiaries	19	544,508	338,629
Debtors and prepayments	24	1,813	361
Taxation recoverable		339	339
Cash and bank balances	26	1,853,249	2,253
		17,373,661	16,057,007
Total assets		17,373,662	16,057,008
EQUITY			
Share capital	27	329,612	329,058
Reserves	29	11,993,172	12,038,414
Shareholders' funds		12,322,784	12,367,472
LIABILITIES			
Non-current liabilities			
Borrowings	30	3,882,559	117,000
Derivative financial instruments	30	573,109	—
		4,455,668	117,000
Current liabilities			
Amounts due to subsidiaries	19	172,955	723,287
Creditors and accruals	33	16,555	30,661
Current portion of borrowings	30	405,700	2,818,588
		595,210	3,572,536
Total liabilities		5,050,878	3,689,536
Total equity and liabilities		17,373,662	16,057,008

Francis Lui Yiu Tung
Director

Chan Kai Nang
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
Cash flows from operating activities			
Cash generated from/(used in) operations	34(a)	2,232,518	(11,413)
Hong Kong profits tax (paid)/refunded		(2,897)	881
Mainland China income tax and Macau complementary tax paid		(275)	(1,603)
Interest paid		(529,100)	(55,204)
Net cash from/(used in) operating activities		1,700,246	(67,339)
Cash flows from investing activities			
Purchase of property, plant and equipment		(2,727,143)	(411,061)
Purchase of leasehold land and land use rights		(22,463)	—
Purchase of intangible assets		(17,767)	(141)
Proceeds from sale of property, plant and equipment		5,575	1,091
Acquisition of subsidiaries, net of cash acquired	34(b)	(23,508)	(97,374)
Acquisition of additional interest in a subsidiary		(6,327)	—
Investments in jointly controlled entities and an associated company		(64,610)	(108,704)
Decrease/(increase) in amount due from jointly controlled entities and associated companies		16,030	(56,373)
(Decrease)/increase in amount due to a jointly controlled entity		(14,103)	14,397
Deferred expenditure		(977)	(724)
(Increase)/decrease in deferred receivable		(4,047)	4,150
Increase in finance lease receivable		(174,270)	(1,848)
(Increase)/decrease in non-current investments		(81,682)	7,137
Proceeds from disposal of listed investments		33,730	49,031
Proceeds from disposal of unlisted investments		—	57,528
Interest received		161,734	23,492
Net gain from cross-currency swaps for hedging		11,626	—
Increase in restricted bank deposits		—	(3,532)
Dividends received from jointly controlled entities		6,565	1,871
Dividends received from unlisted and listed investments		9,578	—
Net cash used in investing activities		(2,892,059)	(521,060)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December 2006

	2006 HK\$'000	2005 HK\$'000
Cash flows from financing activities		
Issue of new shares	18,626	1,141,520
New bank loans	287,420	334,400
Repayment of bank loans	(50,540)	(496,580)
Issue of long-term guaranteed notes	—	4,680,000
Issue cost of long-term guaranteed notes	—	(154,624)
Issue of convertible notes	1,872,000	—
Issue cost of convertible notes	(25,787)	—
Repayment of fixed rate notes	(172,435)	—
Capital element of finance lease payments	(200)	(83)
Repayment of loans from minority interests	(18,200)	(9,046)
Dividends paid to shareholders	—	(12,972)
Dividends paid to minority interests	(2,911)	—
Net cash from financing activities	1,907,973	5,482,615
Net increase in cash and bank balances	716,160	4,894,216
Cash and bank balances at beginning of year	5,068,214	170,952
Changes in exchange rates	(1,177)	3,046
Cash and bank balances at end of year	5,783,197	5,068,214

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2006

	Share capital HK\$'000	Reserves HK\$'000	Shareholders' fund HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1st January 2005	129,648	1,295,752	1,425,400	39,025	1,464,425
Change in fair value of non-current investments	—	(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	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
Change in fair value of non-current investments	—	122,004	122,004	—	122,004
Exchange differences	—	40,528	40,528	801	41,329
Change in fair value of cash flow hedges	—	47,072	47,072	—	47,072
Net income recognised directly in equity	—	209,604	209,604	801	210,405
Acquisition of subsidiaries	—	—	—	2,926	2,926
Acquisition of additional interest in a subsidiary	—	—	—	(2,062)	(2,062)
Issue of shares upon exercise of share options	554	18,072	18,626	—	18,626
Fair value of share options	—	3,661	3,661	—	3,661
Dividend paid to minority interests	—	—	—	(2,911)	(2,911)
Loss for the year	—	(1,531,546)	(1,531,546)	36	(1,531,510)
	554	(1,509,813)	(1,509,259)	(2,011)	(1,511,270)
At 31st December 2006	329,612	13,303,187	13,632,799	490,700	14,123,499

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Galaxy Entertainment Group Limited (the “Company”) is a limited liability company incorporated in Hong Kong and has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited. The address of its registered office and principal place of business is Room 1606, 16th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong.

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

2. BASIS OF PREPARATION

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

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies of the Group. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 5 below.

(a) Changes in accounting policies

In 2006, the Group adopted the new standards, amendments to standards and interpretations of HKFRS issued by the HKICPA which are effective for the accounting periods beginning on or after 1st January 2006. The change to the accounting policy of the Group and its effects are set out below.

For the year ended 31st December 2006, HK(IFRIC)-Int 4 “Determining whether an Arrangement contains a Lease” becomes effective, under which the Group has reassessed all the existing arrangements to determine whether they contain a lease based on the substance of the arrangement. As a result of this reassessment, the arrangements for certain plant and equipment and computer software constitute leases under HK(IFRIC)-Int 4. Accordingly, property, plant and equipment and intangible assets with net book amounts of HK\$36,842,000 and HK\$1,139,000, respectively, as at 31st December 2005 have been reclassified as investments in finance leases. The above change however does not have any impact to the results of the Group and therefore a prior year adjustment is not required.

NOTES TO THE FINANCIAL STATEMENTS

2. BASIS OF PREPARATION (Continued)

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

The following standards and interpretations to existing standards have been published that are mandatory for the accounting periods beginning on or after 1st January 2007 or later periods but which the Group has not early adopted:

HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HKAS 1 Amendment	Presentation of Financial Statements-Capital Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2-Group and Treasury Share Transactions

The Group has already commenced an assessment of the impact of these 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.

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 that 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.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Subsidiaries

Subsidiaries are companies over 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 and are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the share of the identifiable net assets acquired by the Group is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated 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.

3.4 Jointly controlled entities and jointly controlled operations

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

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Jointly controlled entities and jointly controlled operations (Continued)

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.

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

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

3.5 Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management, generally accompanying a shareholding of between 20% to 50% of the voting rights.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Impairment losses on goodwill are not reversed.

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

3.7 Property, plant and equipment

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

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

Leasehold improvement	Over the remaining period of the lease
Buildings	50 years
Plant and machinery	5 to 25%
Gaming equipment	20 to 33.3%
Other assets	10 to 33.3%

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.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 was a finance lease.

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

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

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

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

3.9 Gaming licence

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

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. Assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

(b) *Loans and receivable*

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Investments (Continued)

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

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

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

3.14 Derivative financial instruments

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Derivative financial instruments (Continued)

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

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

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

3.15 Debtors and prepayments

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

3.16 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of construction materials is calculated on the weighted average basis, 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 and food and beverages using the weighted average method. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 Convertible notes

(a) *Convertible notes with equity component*

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20 Convertible notes (Continued)

(a) *Convertible notes with equity component (Continued)*

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

(b) *Convertible notes without equity component*

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

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

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

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

3.21 Leases

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

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

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.21 Leases (Continued)

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

3.22 Provisions

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

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

3.23 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.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.24 Employee benefits

(a) *Employees entitlement, benefits and bonus*

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

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

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

(b) *Share-based compensation*

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

3.25 Borrowing costs

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

3.26 Revenue recognition

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

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.26 Revenue recognition (Continued)

Revenue is recognised when the amount can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria for each of the activities have been met. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the activities have been resolved. Estimates are based on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

(a) *Gaming operations*

Revenue from gaming operations, representing the net gaming wins, is recognised when the relevant services have been rendered and is measured at the entitlement of economic inflows of the Group from the business.

(b) *Hotel operations*

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

(c) *Construction materials*

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

(d) *Rental income*

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

(e) *Administrative fee*

Administrative fee is recognised when the services have been rendered.

(f) *Interest income*

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

(g) *Dividend income*

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

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.27 Foreign currencies

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 financial statements are presented in Hong Kong dollar, which is the functional and presentation currency of the Company.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the exchange rates ruling at the balance sheet date are recognised in the profit and loss statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

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

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

- (i) assets and liabilities for each balance sheet presented are translated at the exchange rates ruling at the date of that balance sheet;
- (ii) income and expenses for each profit and loss statement are translated at average exchange rates; and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

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

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

3.28 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.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.29 Dividend distribution

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

4. FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The activities of the Group 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.

(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*

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

NOTES TO THE FINANCIAL STATEMENTS

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

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

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. Generally, the Group 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 mainly arises from future commercial transactions, recognised assets and liabilities, which are denominated in a currency that is not the functional currency of the Group.

The Group has no significant foreign exchange risk due to there being 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.

The Group monitors foreign exchange exposure and considers to enter into forward foreign exchange contracts to reduce exposure where necessary.

(e) *Price risk*

The Group is exposed to equity securities price risk through investments held by the Group classified either as available-for-sale financial assets or other investments.

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, other financial assets and embedded financial liabilities, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

4. FINANCIAL RISK MANAGEMENT (Continued)

4.2 Fair value estimation (Continued)

The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the 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 risk causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below:

(a) *Useful lives of property, plant and equipment*

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

(b) *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. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

(c) *Impairment of goodwill*

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

NOTES TO THE FINANCIAL STATEMENTS

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(d) *Impairment of gaming licence*

Gaming licence represents the fair value of licence acquired on the acquisition of Galaxy and is amortised on a straight line basis over its estimated useful life, which is the remaining licence period. 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.

(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 cash flows that could be expected from the ultimate sale after deducting the estimated expenses directly associated with the sale. The Group determines whether an investment is impaired by evaluating the duration and extent to which the fair value of an investment is less than its cost.

(f) *Fair value of derivative financial instruments*

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

(g) *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.

(h) *Share-based payments*

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

(i) *Taxation*

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

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT INFORMATION

In accordance with the internal financial reporting and operating activities of the Group, the primary segment reporting is by business segments and the secondary segment reporting is by geographical segments. Segment assets consist primarily of property, plant and equipment, investment properties, leasehold land and land use rights, intangible assets, other non-current assets, inventories, debtors and prepayments, and mainly exclude investments, derivative financial instruments, taxation recoverable and cash and bank balances. Segment liabilities comprise mainly creditors, accruals and provisions. There are no sales or trading transaction between the business segments.

(a) Business segments

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

- (a) Results of the gaming and entertainment division include pre-opening expenses of HK\$267,868,000 incurred for the City Club Casinos and the StarWorld Casino and Hotel.

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

	Gaming and entertainment	Construction materials	Unallocated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Year ended 31st December 2005				
Turnover	66,213	1,225,714	—	1,291,927
Operating profit/(loss) (note a)	2,624,750	3,683	(36,609)	2,591,824
Finance costs				(118,157)
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				
receivable	—	(28,500)	—	(28,500)
Impairment of non-current				
investments	—	—	(1,505)	(1,505)

- (a) Results of the gaming and entertainment division include the excess of fair value of net assets acquired over cost of acquisition of subsidiaries of HK\$3,039,019,000.

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

	Gaming and entertainment HK\$'000	Construction materials HK\$'000	Unallocated HK\$'000	Total HK\$'000
As at 31st December 2006				
Segment assets	20,403,330	1,782,149	6,636,269	28,821,748
Jointly controlled entities	(2,769)	389,289	—	386,520
Associated companies	—	730	—	730
Total assets				29,208,998
Segment liabilities	2,907,093	539,522	11,638,884	15,085,499
As at 31st December 2005				
Segment assets	18,770,818	1,842,757	5,473,568	26,087,143
Jointly controlled entities	—	279,432	—	279,432
Associated companies	—	21,346	—	21,346
Total assets				26,387,921
Segment liabilities	862,281	570,923	9,530,353	10,963,557

(b) Geographical segments

	Turnover HK\$'000	Capital expenditure HK\$'000	Total assets HK\$'000
Year ended 31st December 2006			
Macau	3,620,336	2,796,186	25,077,008
Hong Kong	516,380	30,515	2,860,182
Mainland China	532,779	22,029	1,271,808
	4,669,495	2,848,730	29,208,998
Year ended 31st December 2005			
Macau	126,936	19,112,855	24,094,083
Hong Kong	493,504	11,232	1,078,696
Mainland China	671,487	26,149	1,215,142
	1,291,927	19,150,236	26,387,921

NOTES TO THE FINANCIAL STATEMENTS

7. TURNOVER

	2006 HK\$'000	2005 HK\$'000
Sales of construction materials	1,280,728	1,225,714
Gaming operations		
Net gaming wins	3,186,893	—
Contributions (note a)	167,057	66,213
Tips received	19,692	—
Hotel operations		
Room rental	10,739	—
Food and beverages	3,924	—
Others	462	—
	4,669,495	1,291,927

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

7. TURNOVER (Continued)

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

	2006 HK\$'000	2005 HK\$'000
Net gaming wins	2,732,614	1,570,687
Tips and other income	22,820	12,207
Interest income	18,085	5,510
	2,773,519	1,588,404
Operating expenses		
Special gaming tax and funds to the Macau Government	(1,101,141)	(628,882)
Commission and allowances to promoters	(1,042,232)	(611,322)
Staff costs	(328,559)	(108,304)
Administrative and others	(73,065)	(32,870)
	(2,544,997)	(1,381,378)
Contributions from gaming operations	228,522	207,026
Net entitlements of the Service Providers	(61,465)	(140,813)
Contributions attributable to the Group	167,057	66,213

NOTES TO THE FINANCIAL STATEMENTS

8. OPERATING (LOSS)/PROFIT

	2006 HK\$'000	2005 HK\$'000
Operating (loss)/profit is stated after crediting:		
Rental income	9,286	13,721
Interest income		
Bank deposits	156,578	20,257
Loans to jointly controlled entities (note 24b)	2,073	2,532
Loan to a related company (note 39c)	3,371	—
Deferred receivable (note 22d)	797	703
Administrative fee	16,864	2,095
Dividend income from unlisted investments	9,229	12,721
Dividend income from listed investments	349	—
Change in fair value of derivative financial instruments	—	2,074
Change in fair value of listed investments	3,883	6,522
Gain on disposal of non-current investments	—	36,554
Gross earnings on finance lease	11,441	1,734
Foreign exchange gain	9,417	—
Reversal of impairment of debtors	2,643	—
and after charging:		
Depreciation	144,493	77,622
Amortisation		
Gaming licence	998,089	418,762
Computer software	1,135	82
Overburden removal costs	16,475	16,192
Quarry site improvements	15,050	15,120
Quarry site development	1,959	1,905
Leasehold land and land use rights (note a)	12,938	6,385
Operating lease rental		
Land and buildings	49,166	9,049
Plant and machinery	3,900	3,607
Royalty	5,916	5,906
Loss on disposal of property, plant and equipment	119	107
Cost of inventories sold	1,106,659	1,062,157
Staff costs, including Directors' remuneration (note b)	947,069	254,802
Impairment of non-current investments	4,237	1,505
Impairment of property, plant and equipment	784	13,070
Change in fair value of investment properties	500	2,500
Outgoing in respect of investment properties	660	652
Impairment of trade and other debtors	—	28,500
Change in fair value of derivative financial instruments	407	—
Foreign exchange loss	—	1,681
Auditors' remuneration		
Audit services		
Provision for the year	7,643	—
Under-provision in prior year	1,375	1,847
Non-audit services (note c)		
Provision for the year	476	—
Under-provision in prior year	78	262

NOTES TO THE FINANCIAL STATEMENTS

8. OPERATING (LOSS)/PROFIT (Continued)

- (a) Amortisation of leasehold land and land use rights is stated after amount capitalised in assets under construction of HK\$26,349,000 (2005: HK\$52,636,000).
- (b) Staff costs include share option expenses of HK\$3,661,000 (2005: HK\$37,561,000).
- (c) Non-audit services is stated after amount capitalised in cost of acquisitions and included as amortised cost of borrowings in the aggregate of HK\$70,000 (2005: HK\$7,322,000).

9. MANAGEMENT REMUNERATION

- (a) Directors' remuneration

	Fees	Salary, allowance and benefit in kind	Discretionary bonuses	Pension scheme contributions	Share options (note d)	2006 Total	2005 Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive Directors							
Dr. Lui Che Woo	100	3,000	—	150	277	3,527	3,138
Mr. Francis Lui Yiu Tung	80	11,000	164	550	273	12,067	8,967
Mr. Chan Kai Nang	80	2,401	—	84	127	2,692	2,390
Mr. Joseph Chee Ying Keung	80	2,172	140	193	127	2,712	2,346
Mr. William Lo Chi Chung	80	833	—	40	108	1,061	2,210
Ms. Paddy Tang Lui Wai Yu	80	—	—	—	188	268	3,358
	500	19,406	304	1,017	1,100	22,327	22,409
Non-executive Directors							
Dr. Charles Cheung Wai Bun	180	—	—	—	118	298	278
Mr. Moses Cheng Mo Chi	160	—	—	—	94	254	254
Mr. James Ross Ancell	160	—	—	—	118	278	232
Dr. William Yip Shue Lam	80	—	—	—	118	198	119
Mr. Yip Hing Chung	—	—	—	—	—	—	33
	580	—	—	—	448	1,028	916
Total 2006	1,080	19,406	304	1,017	1,548	23,355	
Total 2005	902	6,059	781	439	15,144		23,325

The discretionary bonuses paid in 2006 were in relation to performance for 2005.

NOTES TO THE FINANCIAL STATEMENTS

9. MANAGEMENT REMUNERATION (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2005: three) Director whose emoluments are reflected in note (a) above. The emoluments of the remaining four individuals (2005: two) are as follows:

	2006 HK\$'000	2005 HK\$'000
Salaries and other emoluments	21,380	3,129
Discretionary bonuses	3,194	500
Retirement benefits	675	142
Share options (note d)	—	5,459
	25,249	9,230

The emoluments of these individuals fell within the following bands:

	Number of individuals	
	2006	2005
HK\$3,500,001 – HK\$4,000,000	—	1
HK\$4,000,001 – HK\$4,500,000	2	—
HK\$5,000,001 – HK\$5,500,000	—	1
HK\$6,000,001 – HK\$6,500,000	1	—
HK\$10,500,001 – HK\$11,000,000	1	—
	4	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 relevant income of the employees in compliance with the legislative requirement. In addition, the Group also makes defined top-up contributions to the same scheme or the Occupational Retirement Scheme Ordinance (ORSO) Scheme for employees depending on circumstance. For the top-up schemes, the Group's contributions to the schemes may be reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the Schemes are held separately from those of the Group in independently administered funds.

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

NOTES TO THE FINANCIAL STATEMENTS

9. MANAGEMENT REMUNERATION (Continued)

(c) Retirement benefit schemes (Continued)

Employees in Mainland China participate in various pension plans organised by the relevant municipal and provincial governments under which the Group is required to make monthly defined contributions to these plans at rates ranging from 7% to 22%, dependent upon the applicable local regulations. The Group has no other obligations for the payment of pension and other post-retirement benefits of employees other than the above payments.

The costs of the retirement benefit schemes charged to the profit and loss statement during the year comprise contributions to the schemes of HK\$29,356,000 (2005: HK\$15,443,000), after deducting forfeitures of HK\$1,119,000 (2005: HK\$434,000), leaving HK\$292,000 (2005: HK\$171,000) 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 (note 28(e)) charged to the profit and loss statement for the year according to their vesting periods.

10. FINANCE COSTS

	2006 HK\$'000	2005 HK\$'000
Interest expenses		
Guaranteed fixed rate notes not wholly repayable within five years	276,340	12,996
Guaranteed floating rate notes wholly repayable within five years	206,393	9,283
Fixed rate notes wholly repayable within five years	140,781	78,425
Convertible notes wholly repayable within five years	5,464	—
Bank loans and overdrafts	31,795	18,910
Obligations under finance leases wholly payable within five years	56	24
Change in fair value of derivative under the convertible notes	(67,818)	—
Net gain from cross currency swap for hedging	(11,626)	—
Other borrowing costs	12,901	3,384
	594,286	123,022
Amount capitalised in assets under construction	(72,060)	(4,865)
	522,226	118,157

NOTES TO THE FINANCIAL STATEMENTS

11. TAXATION

	2006 HK\$'000	2005 HK\$'000
Current taxation		
Hong Kong profits tax	708	1,049
Mainland China income tax	1,932	634
Macau Complementary tax	4,029	—
Deferred taxation	(821)	—
	5,848	1,683

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits for the year after setting off available taxation losses brought forward. Taxation assessable on profits generated outside Hong Kong has been provided at the rates of taxation prevailing in the countries in which those profits arose.

The taxation on the (loss)/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:

	2006 HK\$'000	2005 HK\$'000
(Loss)/profit before taxation	(1,525,662)	2,398,388
Share of profits less losses of		
Jointly controlled entities	(29,623)	77,975
Associated companies	612	(2,696)
	(1,554,673)	2,473,667
Tax calculated at applicable tax rate	198,149	(288,893)
Income under tax relief	1,769	4,292
Income not subject to tax	7,638	372,607
Loss exempted from taxation	(33,654)	(962)
Expenses not deductible for tax purpose	(145,778)	(86,926)
Utilisation of previously unrecognised tax losses	6,866	5,393
Tax losses not recognised	(40,556)	(7,111)
Under provision of tax	(282)	(83)
Taxation charge	(5,848)	(1,683)

12. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK\$68,975,000 (2005: HK\$147,264,000).

NOTES TO THE FINANCIAL STATEMENTS

13. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the loss attributable to shareholders of HK\$1,531,546,000 (2005: profit of HK\$2,395,269,000) and the weighted average of 3,293,135,440 shares (2005: 2,164,208,891 shares) in issue during the year.

The diluted loss per share for 2006 equals to the basic loss per share since the exercise of the outstanding share options would not have a dilutive effect on the loss per share. The diluted earnings per share for 2005 was calculated based on the profit attributable to shareholders of HK\$2,395,269,000 and the weighted average of 2,164,208,891 shares in issue plus 25,507,219 potential shares arising from share options.

14. DIVIDENDS

The Board of Directors has resolved not to declare any dividend for the year ended 31st December 2006 (2005: nil).

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Other assets HK\$'000	Assets under construction HK\$'000	Total HK\$'000
Cost						
At 31st December 2005, as previously reported	41,773	34,778	726,144	313,902	752,306	1,868,903
Reclassification to finance lease receivable	—	—	—	(39,628)	—	(39,628)
At 31st December 2005, as restated	41,773	34,778	726,144	274,274	752,306	1,829,275
Exchange differences	1,751	81	11,609	7,575	—	21,016
Acquisition of subsidiaries	—	—	6,922	1,398	—	8,320
Additions	23,644	9,051	55,473	595,139	2,142,245	2,825,552
Transfer	1,628,168	9,638	458,440	—	(2,096,246)	—
Disposals	(397)	(297)	(11,984)	(12,371)	—	(25,049)
At 31st December 2006	1,694,939	53,251	1,246,604	866,015	798,305	4,659,114
Accumulated depreciation and impairment						
At 31st December 2005, as previously reported	7,736	26,102	455,177	155,383	—	644,398
Reclassification to finance lease receivable	—	—	—	(2,786)	—	(2,786)
At 31st December 2005, as restated	7,736	26,102	455,177	152,597	—	641,612
Exchange differences	253	36	4,693	4,094	—	9,076
Charge for the year	13,722	9,276	59,707	61,788	—	144,493
Disposals	(59)	(46)	(8,958)	(10,292)	—	(19,355)
Impairment	—	—	784	—	—	784
At 31st December 2006	21,652	35,368	511,403	208,187	—	776,610
Net book value						
At 31st December 2006	1,673,287	17,883	735,201	657,828	798,305	3,882,504

NOTES TO THE FINANCIAL STATEMENTS

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group

	Buildings	Leasehold improvements	Plant and machinery	Other assets	Assets under construction	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost						
At 31st December 2004	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	—	42,191	333,085	377,238
Reclassification to finance lease receivable	—	—	—	(39,628)	—	(39,628)
Additions	578	1,271	24,465	23,027	419,221	468,562
Disposals	—	(1,062)	(3,872)	(11,699)	—	(16,633)
At 31st December 2005, as restated	41,773	34,778	726,144	274,274	752,306	1,829,275
Accumulated depreciation and impairment						
At 31st December 2004	4,668	24,153	396,713	137,488	—	563,022
Exchange differences	97	12	1,792	1,652	—	3,553
Charge for the year	1,273	2,113	49,530	27,614	—	80,530
Reclassification to finance lease receivable	—	—	—	(2,786)	—	(2,786)
Disposals	—	(176)	(3,560)	(12,041)	—	(15,777)
Impairment	1,698	—	10,702	670	—	13,070
At 31st December 2005, as restated	7,736	26,102	455,177	152,597	—	641,612
Net book value						
At 31st December 2005, as restated	34,037	8,676	270,967	121,677	752,306	1,187,663

- (a) Other assets comprise barges, furniture and equipment, gaming equipment, operating equipment and motor vehicles.
- (b) The net book amount of other equipment held under finance leases amounts to HK\$127,000 (2005: HK\$382,000).
- (c) During the year, borrowing costs of HK\$72,060,000 (2005: HK\$4,865,000) arising on financing specifically entered into for the construction of a building, as well as amortisation of prepayments of lease premium of HK\$26,349,000 (2005: HK\$52,636,000), have been capitalised and included in assets under construction. A capitalisation rate of 5.96% (2005: 4.8%) was used, representing the effective borrowing cost of the loan used to finance the project.

NOTES TO THE FINANCIAL STATEMENTS

16. INVESTMENT PROPERTIES

	Group	
	2006	2005
	HK\$'000	HK\$'000
At valuation		
Beginning of the year	63,000	65,500
Change in fair value	(500)	(2,500)
End of the year	62,500	63,000

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

17. LEASEHOLD LAND AND LAND USE RIGHTS

	Group	
	2006	2005
	HK\$'000	HK\$'000
Net book value at beginning of the year	1,638,620	254,645
Exchange differences	121	—
Additions	22,463	47,215
Acquisition of subsidiaries	—	1,395,781
Amortisation	(39,287)	(59,021)
Net book value at end of the year	1,621,917	1,638,620
Cost	1,765,933	1,743,328
Accumulated amortisation	(144,016)	(104,708)
Net book value	1,621,917	1,638,620
Leases of between 10 to 50 years		
Macau	1,378,510	1,390,359
Hong Kong	240,462	245,369
Mainland China	2,945	2,892
	1,621,917	1,638,620

Leasehold land in Hong Kong with net book values of HK\$216,978,000 (2005: HK\$221,290,000) has been pledged as securities for the bank borrowings (note 30).

NOTES TO THE FINANCIAL STATEMENTS

18. INTANGIBLE ASSETS

Group

	Goodwill	Gaming licence	Computer software	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost				
At 31st December 2005, as previously reported	24,259	16,887,329	1,761	16,913,349
Reclassification to finance lease receivable	—	—	(1,276)	(1,276)
At 31st December 2005, as restated	24,259	16,887,329	485	16,912,073
Acquisition of subsidiaries (note 37)	4,490	—	—	4,490
Acquisition of additional interest in a subsidiary	4,265	—	—	4,265
Additions	—	—	17,767	17,767
Disposals	—	—	(51)	(51)
At 31st December 2006	33,014	16,887,329	18,201	16,938,544
Accumulated amortisation				
At 31st December 2005, as previously reported	—	418,762	218	418,980
Reclassification to finance lease receivable	—	—	(137)	(137)
At 31st December 2005, as restated	—	418,762	81	418,843
Charge for the year	—	998,089	1,135	999,224
Disposals	—	—	(9)	(9)
At 31st December 2006	—	1,416,851	1,207	1,418,058
Net book value				
At 31st December 2006	33,014	15,470,478	16,994	15,520,486
At 31st December 2005, as restated	24,259	16,468,567	404	16,493,230

Goodwill is allocated to the Group's cash-generating units identified according to country of operation and business segment. Goodwill with carrying amount of HK\$28,524,000 (2005: HK\$24,259,000) and HK\$4,490,000 (2005: nil) is allocated to the construction materials segment in Macau and Hong Kong respectively. The recoverable amount of the business unit is determined based on value-in-use calculations. The key assumptions used in the value-in-use calculations are based on the best estimates of the growth rates and discount rates of the respective segments.

NOTES TO THE FINANCIAL STATEMENTS

19. SUBSIDIARIES

	Company	
	2006	2005
	HK\$'000	HK\$'000
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 and payable 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 42(a).

20. JOINTLY CONTROLLED ENTITIES

	Group	
	2006	2005
	HK\$'000	HK\$'000
Beginning of the year	279,432	248,243
New investments	63,880	108,704
Share of results		
Profit/(loss) before taxation	31,974	(77,330)
Taxation	(2,351)	(645)
Dividends	(6,565)	(1,871)
Share of exchange reserve	20,150	2,331
End of the year	386,520	279,432

NOTES TO THE FINANCIAL STATEMENTS

20. JOINTLY CONTROLLED ENTITIES (Continued)

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

	2006 HK\$'000	2005 HK\$'000
Non-current assets	441,948	391,750
Current assets	380,915	238,846
Current liabilities	(159,690)	(132,598)
Non-current liabilities	(276,653)	(218,566)
	386,520	279,432
Income	462,691	400,621
Expenses	(430,717)	(477,951)
Profit/(loss) before taxation	31,974	(77,330)

- (b) 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 42(b).

21. ASSOCIATED COMPANIES

	Group 2006 HK\$'000	2005 HK\$'000
Beginning of the year	21,346	18,650
New investments	730	—
Share of results		
(Loss)/profit before taxation	(612)	3,417
Taxation	—	(721)
Transfer to subsidiary (note 37)	(20,734)	—
End of the year	730	21,346

NOTES TO THE FINANCIAL STATEMENTS

21. ASSOCIATED COMPANIES (Continued)

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

	2006 HK\$'000	2005 HK\$'000
Non-current assets	—	6,303
Current assets	730	32,388
Current liabilities	—	(4,519)
Non-current liabilities	—	(12,826)
	730	21,346
Income	—	44,995
Expenses	—	(41,578)
Profit before taxation	—	3,417

- (b) Details of the associated company which, in the opinion of the Directors, materially affect the results or net assets of the Group are given in note 42(c).

22. OTHER NON-CURRENT ASSETS

	Group 2006 HK\$'000	2005 HK\$'000
Non-current investments (note a)	284,932	85,483
Finance lease receivable (note b)	168,552	30,618
Derivative financial instruments (note c)	47,072	—
Deferred expenditure		
Overburden removal costs	68,574	83,920
Quarry site development	10,930	12,459
Quarry site improvements	105,880	120,930
Deferred receivable (note d)	6,604	2,557
Restricted bank deposits (note e)	259,153	259,153
	951,697	595,120

NOTES TO THE FINANCIAL STATEMENTS

22. OTHER NON-CURRENT ASSETS (Continued)

(a) Non-current investments

	Group 2006 HK\$'000	2005 HK\$'000
Unlisted investments, at fair value	284,932	85,483

(b) Finance lease receivable

	Group 2006 HK\$'000	2005 HK\$'000
Gross receivable	193,016	37,423
Unearned finance income	(24,464)	(6,805)
	168,552	30,618
Current portion included in current assets	43,699	7,363
	212,251	37,981

The finance lease is receivable in the following years:

	Present value 2006 HK\$'000	2005 HK\$'000	Minimum receipts 2006 HK\$'000	2005 HK\$'000
Within one year	43,699	7,363	57,844	10,978
Between one to five years	166,245	29,077	190,592	35,801
Over five years	2,307	1,541	2,424	1,622
	212,251	37,981	250,860	48,401

(c) Derivative financial instruments

	Group 2006 HK\$'000	2005 HK\$'000
Cross-currency swap contracts for cash flow hedges	47,072	—

The notional principal amount of the cross-currency swap contracts is US\$350 million (2005: nil).

NOTES TO THE FINANCIAL STATEMENTS

22. OTHER NON-CURRENT ASSETS (Continued)

- (d) Deferred receivable represents advances to various contractors. The advances are secured by assets provided by the contractors, carry interest at prevailing market rate and are repayable by monthly instalments up to 2012. The current portion of the receivable is included under other debtors.
- (e) Restricted bank deposits are pledged to secure banking facilities extended to the Group. The banking facilities comprise a guarantee amounting to HK\$485 million (2005: 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 (2005: HK\$75 million).

The effective interest rate on restricted bank deposits, which have an average maturity of 32 days (2005: 34 days), was 3.86% (2005: 3.80%). The restricted bank deposits are denominated in Hong Kong dollar.

23. INVENTORIES

	Group	
	2006	2005
	HK\$'000	HK\$'000
Construction materials		
Aggregates and sand	31,720	34,326
Concrete pipes and blocks	13,527	15,944
Cement	6,599	7,177
Spare parts	24,116	21,050
Consumables	6,766	6,285
	82,728	84,782
Gaming and entertainment		
Playing cards	8,769	2,189
Food and beverages	1,521	—
Consumables	1,504	—
	11,794	2,189
	94,522	86,971

NOTES TO THE FINANCIAL STATEMENTS

24. DEBTORS AND PREPAYMENTS

	Group		Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade debtors, net of provision (note a)	504,390	497,406	—	—
Other debtors, net of provision	68,193	100,425	1,245	5
Amounts due from jointly controlled entities (note b)	174,053	190,266	—	—
Amount due from an associated company (note c)	183	—	—	—
Prepayments	72,620	88,331	568	356
Current portion of finance lease receivable	43,699	7,363	—	—
	863,138	883,791	1,813	361

- (a) Trade debtors mainly arise from the sale of construction materials. The Group has established credit policies which follow local industry standards. The Group normally allows an approved credit period ranging from 30 to 60 days for customers in Hong Kong and Macau and 120 to 180 days for customers in Mainland China. These are subject to periodic reviews by management.

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

	2006	2005
	HK\$'000	HK\$'000
Within one month	136,508	130,362
Two to three months	148,612	152,782
Four to six months	97,840	98,995
Over six months	121,430	115,267
	504,390	497,406

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

	2006	2005
	HK\$'000	HK\$'000
Renminbi	329,594	376,579
Hong Kong dollar	129,724	95,212
Macau Patacas	45,072	25,615
	504,390	497,406

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

NOTES TO THE FINANCIAL STATEMENTS

24. DEBTORS AND PREPAYMENTS (Continued)

- (b) Amounts receivable of HK\$34,483,000 (2005: HK\$51,091,000), of which HK\$5,648,000 (2005: HK\$5,648,000) 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. The amounts receivable are denominated in Renminbi.
- (c) Amount receivable is unsecured, interest free and repayable in accordance with agreed term.
- (d) The Group has recognised a reversal of impairment loss of HK\$2,643,000 (2005: impairment loss of HK\$28,500,000) for its trade and other debtors for the year.

25. OTHER INVESTMENTS

	Group	
	2006	2005
	HK\$'000	HK\$'000
Equity securities listed in Hong Kong, at market value	29,636	59,483
Derivative financial instruments, options on listed equity securities	9,605	10,012
	39,241	69,495

26. CASH AND BANK BALANCES

	Group		Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash at bank and on hand	1,625,187	476,292	—	2,253
Short-term bank deposits	4,158,010	4,591,922	1,853,249	—
	5,783,197	5,068,214	1,853,249	2,253

Cash and bank balances of the Group include approximately HK\$3,325 million (2005: HK\$4,283 million) which are restricted to specified uses in accordance with the notes offering agreements as set out in note 30 (b) and (c).

NOTES TO THE FINANCIAL STATEMENTS

26. CASH AND BANK BALANCES (Continued)

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

	Group		Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong dollar	2,302,649	669,731	—	2,206
US dollar	3,337,891	4,287,360	1,853,249	47
Macau Patacas	73,385	33,782	—	—
Renminbi	69,272	77,341	—	—
	5,783,197	5,068,214	1,853,249	2,253

The effective interest rate on cash and bank balances was 4.7% (2005: 3.7%) and the average maturity was 24 days (2005: 9 days).

27. SHARE CAPITAL

	Ordinary shares of HK\$0.10 each	HK\$'000
Authorised:		
At 31st December 2005 and 2006	6,888,000,000	688,800
Issued and fully paid:		
At 31st December 2004	1,296,475,563	129,648
Issue of new shares (note a)	146,000,000	14,600
Issue of new shares for acquisition of subsidiaries (note b)	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
Issue of shares upon exercise of share options	5,538,000	554
At 31st December 2006	3,296,117,361	329,612

(a) On 4th May 2005, the Company issued 146,000,000 new shares of HK\$0.10 each at the issue price of HK\$8 per share for cash. Net proceeds from the issue of shares were used to fund the acquisition of Galaxy Casino, S.A. ("Galaxy").

(b) 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 per share as part of the consideration for the acquisition of Galaxy.

NOTES TO THE FINANCIAL STATEMENTS

28. SHARE OPTION SCHEME

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

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

	2006	2005
At beginning of year	53,908,000	20,342,000
Granted (note a)	—	41,254,000
Exercised (note b)	(5,538,000)	(7,584,000)
Lapsed (note c)	(818,000)	(104,000)
At end of year (note d)	47,552,000	53,908,000

(a) Options granted

No options were granted during the year. 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 in 2005.

(b) Options exercised

Exercise period	Exercise price HK\$	Number of shares issued
May 2006	4.5900	2,400,000
May 2006	0.5333	300,000
May 2006	0.5216	1,070,000
May 2006	0.5140	300,000
June 2006	4.5900	200,000
October 2006	4.5900	408,000
November 2006	4.5900	804,000
December 2006	4.5900	56,000
		5,538,000

NOTES TO THE FINANCIAL STATEMENTS

28. SHARE OPTION SCHEME (Continued)

(c) Options lapsed

Exercise period	Exercise price HK\$	Number of share options	
		2006	2005
22nd October 2005 to 21st October 2011	4.5900	400,000	—
22nd October 2006 to 21st October 2011	4.5900	418,000	104,000
		818,000	104,000

(d) Outstanding options

Exercise period	Exercise price	Number of share options	
	HK\$	2006	2005
Directors			
20th May 1999 to 19th May 2008	0.5333	2,500,000	2,500,000
30th December 2000 to 29th December 2009	0.5216	3,400,000	3,400,000
1st March 2004 to 28th February 2013	0.5140	4,280,000	4,280,000
22nd October 2005 to 21st October 2011	4.5900	13,200,000	13,200,000
22nd October 2006 to 21st October 2011	4.5900	3,290,000	3,290,000
Employees and others			
20th May 1999 to 19th May 2008	0.5333	400,000	700,000
30th December 2000 to 29th December 2009	0.5216	228,000	1,298,000
1st March 2004 to 28th February 2013	0.5140	280,000	580,000
22nd October 2005 to 21st October 2011	4.5900	16,250,000	19,400,000
22nd October 2006 to 21st October 2011	4.5900	3,724,000	5,260,000
		47,552,000	53,908,000

(e) Fair value of share options and assumptions

The fair value of options granted on 21st October 2005 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

29. RESERVES

Group

	Share premium HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Hedging reserve HK\$'000	Investment reserve HK\$'000	Share option reserve HK\$'000	Exchange reserve HK\$'000	Revenue reserve HK\$'000	Total HK\$'000
At 1st January 2006	11,435,004	4,395	70	—	(3,871)	37,561	11,874	3,118,363	14,603,396
Exchange differences	—	—	—	—	—	—	40,528	—	40,528
Change in fair value of cash flow hedges	—	—	—	47,072	—	—	—	—	47,072
Issue of shares upon exercise of share options	21,955	—	—	—	—	(3,883)	—	—	18,072
Fair value of share options	—	—	—	—	—	3,661	—	—	3,661
Share options lapsed	—	—	—	—	—	(412)	—	412	—
Change in fair value of non-current investments	—	—	—	—	122,004	—	—	—	122,004
Loss for the year	—	—	—	—	—	—	—	(1,531,546)	(1,531,546)
At 31st December 2006	11,456,959	4,395	70	47,072	118,133	36,927	52,402	1,587,229	13,303,187
At 1st January 2005	554,087	4,395	70	—	—	—	1,134	736,066	1,295,752
Exchange differences	—	—	—	—	—	—	10,740	—	10,740
Issue of new shares for acquisition of subsidiaries	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
Change in fair value of non-current investments	—	—	—	—	(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

NOTES TO THE FINANCIAL STATEMENTS

29. RESERVES (Continued)

Company

	Share premium HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Share option reserve HK\$'000	Revenue reserve HK\$'000	Total HK\$'000
At 31st December 2005	11,435,004	235,239	70	35,561	332,540	12,038,414
Issue of shares upon exercise of share options	21,955	—	—	(3,883)	—	18,072
Fair value of share options	—	—	—	5,661	—	5,661
Share options lapsed	—	—	—	(412)	412	—
Loss for the year	—	—	—	—	(68,975)	(68,975)
At 31st December 2006	11,456,959	235,239	70	36,927	263,977	11,993,172
At 31st December 2004	554,087	235,239	70	—	492,776	1,282,172
Issue of new shares for acquisition of subsidiaries	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	—	—	—	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

Reserves of the Company available for distribution to shareholders amount to HK\$263,977,000 (2005: HK\$332,540,000).

NOTES TO THE FINANCIAL STATEMENTS

30. BORROWINGS

	Group		Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank loans				
Secured	259,860	232,400	157,400	157,400
Unsecured	453,420	244,000	403,500	194,000
	713,280	476,400	560,900	351,400
Other borrowings				
Fixed rate notes (note a)	2,521,982	2,584,188	2,521,982	2,584,188
Guaranteed notes (note b)	4,532,106	4,526,265	—	—
Convertible notes (note c)	1,205,377	—	1,205,377	—
Bank loans and other borrowings	8,972,745	7,586,853	4,288,259	2,935,588
Obligations under finance leases (note d)	108	308	—	—
Total borrowings	8,972,853	7,587,161	4,288,259	2,935,588
Current portion included in current liabilities	(532,888)	(2,943,806)	(405,700)	(2,818,588)
	8,439,965	4,643,355	3,882,559	117,000

(a) On 22nd July 2005, the Company issued HK\$2,544,240,000 fixed rate notes, which would mature on 21st August 2006, with variable rates as part of consideration for the acquisition of Galaxy. 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. On 22nd May 2006, the remaining HK\$172,435,000 of the fixed rate notes, plus accrued interest of HK\$3,401,000, have been fully paid by the Group.

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

The proceeds from the notes are restricted to be used for the repayment of a specific bank loan, interest payments of the Guaranteed Notes, financing the construction and development of assets under construction, and for general corporate purpose (note 26).

NOTES TO THE FINANCIAL STATEMENTS

30. BORROWINGS (Continued)

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

The proceeds from the Convertible Notes are restricted to be used for financing the construction and development of assets under construction, and for general corporate purpose (note 26).

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

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

	HK\$'000
Nominal value of Convertible Notes (net of transaction cost)	1,846,213
Derivative component at the issue date	(642,798)
Liability under the Convertible Notes at the issue date	1,203,415
Exchange difference	(3,502)
Interest expense	5,464
At 31st December 2006	1,205,377

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

	HK\$'000
Derivative component at the issue date	642,798
Change in fair value	(67,818)
Exchange difference	(1,871)
At 31st December 2006	573,109

NOTES TO THE FINANCIAL STATEMENTS

30. BORROWINGS (Continued)

(c) (Continued)

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

- (i) The valuation is based on the assumption that the Convertible Notes will continue without default, delay in payments and no earlier redemption.
- (ii) The volatility of the share price of the Company is based on the share price movements for the six years prior to the issuance of the Convertible Notes with expected volatility of 50%.
- (iii) The risk free rate is based on the yield of Exchange Fund Notes as at the respective dates, with maturity in accordance with the life of the Convertible Notes.
- (iv) The expected dividend paid out rate is 0.1% during the life of the Convertible Notes.

(d) Obligations under finance leases

The finance lease obligations are payable in the following years:

	Minimum payments		Present value	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	135	279	108	218
In the second year	—	114	—	90
	135	393	108	308

(e) The borrowings are repayable as follows:

	Group							
	Bank loans		Fixed rate notes		Guaranteed notes		Convertible notes	
	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	532,780	359,400	—	2,584,188	—	—	—	—
Between one to two years	157,360	117,000	2,521,982	—	—	—	—	—
Between two to five years	6,480	—	—	—	1,889,973	1,885,944	1,205,377	—
Over five years	16,660	—	—	—	2,642,133	2,640,321	—	—
	713,280	476,400	2,521,982	2,584,188	4,532,106	4,526,265	1,205,377	—

NOTES TO THE FINANCIAL STATEMENTS

30. BORROWINGS (Continued)

(e) (Continued)

	Bank loans		Company Fixed rate notes		Convertible notes	
	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	405,700	234,400	—	2,584,188	—	—
Between one to two years	155,200	117,000	2,521,982	—	—	—
Between two to five years	—	—	—	—	1,205,377	—
	560,900	351,400	2,521,982	2,584,188	1,205,377	—

(f) Effective interest rates

	HK\$	2006	US\$	HK\$	2005
		RMB			US\$
Bank loans	4.4%	5.0%	—	4.7%	—
Fixed rate notes	5.7%	—	—	6.9%	—
Guaranteed Notes	—	—	10.9%	—	10.5%
Convertible Notes	—	—	9.23%	—	—

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

	Group		Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Six months or less	2,603,361	2,362,652	560,900	351,400
Six to twelve months	—	2,584,188	—	2,584,188
One to five years	3,727,359	—	3,727,359	—
Over five years	2,642,133	2,640,321	—	—
	8,972,853	7,587,161	4,288,259	2,935,588

NOTES TO THE FINANCIAL STATEMENTS

30. BORROWINGS (Continued)

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

	Group				Company			
	Carrying amount		Fair value		Carrying amount		Fair value	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Bank loans	713,280	476,400	713,280	476,400	560,900	351,400	560,900	351,400
Fixed rate notes	2,521,982	2,584,188	2,281,206	2,584,188	2,521,982	2,584,188	2,281,206	2,584,188
Guaranteed notes	4,532,106	4,526,265	4,552,934	4,622,165	—	—	—	—
Convertible notes	1,205,377	—	1,139,685	—	1,205,377	—	1,139,685	—
Other borrowings	108	308	108	308	—	—	—	—
	8,972,853	7,587,161	8,687,213	7,683,061	4,288,259	2,935,588	3,981,791	2,935,588

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

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

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Hong Kong dollar	3,185,342	3,060,589	3,082,882	2,935,588
US dollar	5,737,591	4,526,572	1,205,377	—
Renminbi	49,920	—	—	—
	8,972,853	7,587,161	4,288,259	2,935,588

31. DEFERRED TAXATION LIABILITIES

	Group	
	2006 HK\$'000	2005 HK\$'000
At beginning of the year	1,778,531	13,884
Acquisition of subsidiaries	878	1,764,647
Credit to profit and loss statement	(821)	—
At end of the year	1,778,588	1,778,531

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

31. DEFERRED TAXATION LIABILITIES (Continued)

Deferred taxation is calculated in full on temporary differences under the liability method using applicable tax rates prevailing in the countries in which the Group operates. Movements on the deferred taxation liabilities/(assets) are as follows:

	Depreciation allowance	Tax losses	Fair value adjustments	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31st December 2004	39,463	(25,579)	—	13,884
Acquisition of subsidiaries	—	—	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
Acquisition of subsidiaries (note 37)	878	—	—	878
(Credit)/charge to profit and loss statement	4,101	(4,105)	(817)	(821)
At 31st December 2006	39,125	(24,367)	1,763,830	1,778,588

Deferred taxation assets of HK\$67,883,000 (2005: HK\$37,993,000) arising from unused tax losses and other temporary differences totalling of HK\$403,086,000 (2005: HK\$189,952,000) have not been recognised in the financial statements. Unused tax losses of HK\$171,174,000 (2005: HK\$133,106,000) have no expiry date and the balance will expire at various dates up to and including 2012.

32. PROVISIONS

	Environment restoration	Group Quarrying right	Total
	HK\$'000	HK\$'000	HK\$'000
At 31st December 2004	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
Additional provision	5,500	—	5,500
Charged to the profit and loss statement	1,460	12,820	14,280
Applied during the year	(9,160)	(8,710)	(17,870)
At 31st December 2006	119,870	67,200	187,070

The current portion of the provisions amounting to HK\$66,919,000 (2005: HK\$40,800,000) is included under other creditors.

NOTES TO THE FINANCIAL STATEMENTS

33. CREDITORS AND ACCRUALS

	Group		Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade creditors (note a)	975,230	393,049	—	—
Other creditors	668,863	379,396	—	12,500
Chips issued	1,065,413	345,924	—	—
Amount due to a jointly controlled entity (note b)	294	14,397	—	—
Loans from minority interests (note b)	76,088	94,288	—	—
Accrued operating expenses	843,663	219,671	16,555	18,161
Deposits received	4,294	5,322	—	—
	3,633,845	1,452,047	16,555	30,661

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

	2006	2005
	HK\$'000	HK\$'000
Within one month	816,005	245,230
Two to three months	65,820	49,207
Four to six months	55,560	41,135
Over six months	37,845	57,477
	975,230	393,049

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

	2006	2005
	HK\$'000	HK\$'000
Macau Patacas	795,853	197,279
Renminbi	147,710	176,738
Hong Kong dollar	31,667	19,032
	975,230	393,049

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

NOTES TO THE FINANCIAL STATEMENTS

34. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	2006 HK\$'000	2005 HK\$'000
Operating (loss)/profit	(1,032,447)	2,591,824
Excess of fair value of net assets acquired over cost of acquisition of subsidiaries	—	(3,039,019)
Depreciation	144,493	77,622
Change in fair value of investment properties	500	2,500
Loss on disposal of property, plant and equipment	119	107
Loss on disposal of intangible assets	42	—
Gain on disposal of non-current investments	—	(36,554)
Change in fair value of listed investments	(3,883)	(6,522)
Change in fair value of derivative financial instruments	407	(2,074)
Impairment of non-current investments	4,237	1,505
Impairment of property, plant and equipment	784	13,070
Interest income	(162,819)	(23,492)
Gross earnings on finance lease	(11,441)	(1,734)
Dividend income from listed and unlisted investments	(9,578)	(12,721)
Amortisation of deferred expenditure	33,484	33,217
Amortisation of intangible assets	999,224	418,844
Amortisation of leasehold land and land use rights	12,938	6,385
Fair value of share options granted	3,661	37,561
Operating (loss)/profit before working capital changes	(20,279)	60,519
(Increase)/decrease in inventories	(600)	9,781
Decrease/(increase) in debtors and prepayments	110,976	(104,413)
Increase in creditors and accruals	2,142,421	22,700
Cash generated from/(used in) operations	2,232,518	(11,413)

NOTES TO THE FINANCIAL STATEMENTS

34. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

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

	2006 HK\$'000	2005 HK\$'000
Purchase consideration settled in cash		
Tarmac Asphalt (note 37)	(68,768)	—
Galaxy Casino, S.A.	—	(1,155,543)
Concrete company in Macau	—	(24,394)
Cash and cash equivalents in subsidiaries acquired	45,260	1,082,563
Net cash outflow on acquisitions	(23,508)	(97,374)

35. CAPITAL COMMITMENTS

	Group 2006 HK\$'000	2005 HK\$'000
Contracted but not provided for	2,315,845	740,444
Authorised but not contracted for	1,206,054	2,741,982

36. 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 2006 HK\$'000	2005 HK\$'000
First year	22,258	16,921
Second to fifth years	47,846	46,311
After the fifth year	108,527	115,978
	178,631	179,210

NOTES TO THE FINANCIAL STATEMENTS

37. BUSINESS COMBINATIONS

In August 2006, the Group acquired 80% of the equity interest in Tarmac Asphalt Hong Kong Limited ("Tarmac Asphalt") which is engaged in manufacture, sale and laying of asphalt for a net cash consideration of HK\$68,768,000. Following the acquisition, the Group's interest in Tarmac Asphalt was increased from 20% to 100%. As a result, Tarmac Asphalt ceased to be an associated company and became a wholly owned subsidiary of the Group. Details of net assets acquired are as follows:

	Carrying amount of acquiree HK\$'000	Fair value HK\$'000
Property, plant and equipment	8,320	8,320
Inventories	6,951	6,951
Debtors and prepayments	67,968	67,968
Cash and bank balances	45,260	45,260
Creditors and accruals	(36,192)	(36,192)
Taxation payable	(491)	(491)
Provisions	(3,000)	(3,000)
Deferred taxation liabilities	(878)	(878)
Net assets	<u>87,938</u>	87,938
Minority interests		(2,926)
Interest previously held by the Group (note 21)		<u>(20,734)</u>
Net assets acquired		64,278
Cash consideration		<u>68,768</u>
Goodwill (note 18)		<u>4,490</u>

Since the date of acquisition, the acquired business contributed revenue and profit after taxation of HK\$62,986,000 and HK\$1,249,000 respectively. If the acquisition had occurred on 1st January 2006, the Group's revenue and profit after taxation would have increased by HK\$93,966,000 and HK\$2,950,000 respectively.

The goodwill can be attributed to the anticipated profitability of the acquired business.

NOTES TO THE FINANCIAL STATEMENTS

38. 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	
	2006	2005
	HK\$'000	HK\$'000
First year	20,992	13,524
Second to fifth years	73,257	43,584
After the fifth year	42,256	10,504
	136,505	67,612

39. RELATED PARTY TRANSACTIONS

Significant related party transactions carried out in the normal course of the Group's business activities during the year are as follows:

- (a) Sales of aggregates to an associated company amounted to HK\$11,356,000 (2005: HK\$18,230,000) and sales of ready mixed concrete and cement to a jointly controlled entity amounted to HK\$11,628,000 (2005: HK\$62,600,000).
- (b) Rental income from an associated company amounted to HK\$5,753,000 (2005: HK\$9,603,000) based on the terms of rental agreement between the parties.
- (c) Interest income from a subsidiary of K. Wah International Holdings Limited ("KWIH"), a substantial shareholder of the Company, amounted to HK\$3,371,000 (2005: nil) and from jointly controlled entities amounted to HK\$2,073,000 (2005: HK\$2,532,000) based on terms agreed among the parties.
- (d) Rental expenses of HK\$2,015,000 (2005: HK\$ 1,172,000) were paid to a subsidiary of KWIH based on the terms of the rental agreement between the parties.
- (e) Management fee received from jointly controlled entities amounted to HK\$1,391,000 (2005: HK\$437,000).
- (f) The balances with jointly controlled entities and an associated company are disclosed in note 24.
- (g) Finance costs on fixed rate notes issued to City Lion Profits Corp. and Recurrent Profits Limited amounted to HK\$140,081,000 (2005: HK\$52,904,000) and HK\$3,073,000 (2005: HK\$1,160,000) respectively based on the terms of the fixed rate notes between the parties. City Lion Profits Corp. is wholly owned by a discretionary trust established by Dr. Lui Che Woo as founder with Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu, all being Directors of the Company, being either direct or indirect discretionary beneficiaries; and Recurrent Profits Limited is wholly owned by Mr. Francis Lui Yiu Tung.

NOTES TO THE FINANCIAL STATEMENTS

39. RELATED PARTY TRANSACTIONS (Continued)

- (h) 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:

	2006 HK\$'000	2005 HK\$'000
Fees	500	434
Salaries and other allowances	19,406	6,059
Discretionary bonuses	304	781
Retirement benefits	1,017	439
Share options	1,100	14,696
	22,327	22,409

40. GUARANTEES

The Company has executed guarantees in favour of banks in respect of facilities granted to subsidiaries amounting to HK\$209,858,000 (2005: HK\$262,440,000), of which HK\$175,147,000 (2005: HK\$123,868,000) have been utilised.

The Group has executed guarantees in favour of a bank in respect of facilities granted to an associated company amounting to HK\$9,125,000 (2005: nil). At 31st December 2006, facilities utilised amounted to HK\$9,125,000 (2005: nil).

41. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 18th April 2007.

NOTES TO THE FINANCIAL STATEMENTS

42. 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

NOTES TO THE FINANCIAL STATEMENTS

42. PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES (Continued)

(a) Subsidiaries (Continued)

Name of company	Principal place of operation	Number of ordinary shares	Issued share capital		Par value per share HK\$	Percentage of equity held by the Group	Principal activities
			Number of non-voting deferred shares				
K. Wah Quarry Company Limited	Hong Kong	200,002	100,000		100	100	Sale of aggregates
K. Wah Stones (Zhu Hai) Company Limited	Zhuhai	2	1,000		10	100	Quarrying
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
Tarmac Asphalt Hong Kong Limited	Hong Kong	1,100,000	—		10	100	Manufacture, sale and distribution and laying of asphalt

NOTES TO THE FINANCIAL STATEMENTS

42. PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES (Continued)

(a) Subsidiaries (Continued)

Name of company	Principal place of operation	Registered capital	Percentage of equity held by the Group	Principal activities
Incorporated in Mainland China				
Wholly-owned foreign enterprise				
Doran Construction Products (Shenzhen) Co., Ltd.	Shenzhen	HK\$10,000,000	100	Manufacture, sale and distribution of concrete pipes
K. Wah 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
Cooperative joint venture				
Beijing K.Wah GaoQiang Concrete Co. Ltd.	Beijing	US\$2,450,000	100	Manufacture, sale and distribution of ready-mixed concrete

NOTES TO THE FINANCIAL STATEMENTS

42. PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES (Continued)

(a) Subsidiaries (Continued)

Name of company	Principal place of operation	Registered capital	Percentage of equity held by the Group	Principal activities
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
Equity joint venture				
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

42. PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES (Continued)

(a) Subsidiaries (Continued)

Name of company	Principal place of operation	Number of issued ordinary shares	Par value per share	Percentage of equity held by the Group	Principal activities
Incorporated in the British Virgin Islands					
Canton Treasure Group Ltd.	Macau	10	US\$1	100*	Investment holding
Cheer Profit International Limited	Macau	10	US\$1	100	Property investment
Eternal Profits International Limited	Hong Kong	10	US\$1	100	Property investment
Galaxy Entertainment Finance Company Limited	Macau	10	US\$1	88.1	Financing
K. Wah Construction Materials Limited	Hong Kong	10	US\$1	100*	Investment holding
High Regard Investments Limited	Hong Kong	20	US\$1	100	Investment holding
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

NOTES TO THE FINANCIAL STATEMENTS

42. PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES (Continued)

(a) Subsidiaries (Continued)

Name of company	Principal place of operation	Number of issued ordinary shares	Par value per share	Percentage of equity held by the Group	Principal activities
Incorporated in Macau					
Galaxy Casino, S.A.	Macau	951,900	MOP100,000	88.1	Casino games of chance
StarWorld Hotel Company Limited (formerly known as 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

42. PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES (Continued)

(b) Jointly controlled entities

Name of company	Principal place of operation	Registered capital	Percentage of equity held by the Group	Principal activities
Incorporated in Mainland China				
Anhui Masteel K. Wah New Building Materials Co., Ltd.	Maanshan	US\$4,290,000	30	Manufacture, sale and distribution of slag
Beijing Shougang K.Wah Construction Materials Co. Ltd.	Beijing	RMB50,000,000	40	Manufacture, sale and distribution of slag
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 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					
AHK Aggregates Limited	Hong Kong	2,000,000	1	36.5	Quarrying