

CHAIRMAN'S STATEMENT



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

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

Dear shareholders,

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

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

ENTERTAINMENT AND LEISURE DIVISION

A Beneficiary of China's Growing Interest in Leisure

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

CHAIRMAN'S STATEMENT

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

Successful US Dollar Bond Issue

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

Valuable Land Bank

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

A Pool of Talent

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

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

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

Statutory Compliance up to International Standards

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

CONSTRUCTION MATERIALS DIVISION

Strategic Move to Enhance Competitiveness

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

CHAIRMAN'S STATEMENT

Synergies Created with Leading Enterprises

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

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

A VOTE OF THANKS

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

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

11th April 2006