

CORPORATE GOVERNANCE REPORT

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

THE BOARD

The Company is headed by the Board comprising 10 Directors, which is responsible to lead and control the Company and its subsidiaries (“Group”) and direct and supervise the Group’s affairs. The Board sets strategies for the Company and monitors the performance of the management. The names and biographical details of the Directors (by category) and their relationships are set out in the Corporate Information on page 4 and Further Corporate Information on pages 41 and 42.

Chairman, Deputy Chairman and Managing Director

The roles of the Chairman of the Board, the Deputy Chairman of the Board and the Managing Director are segregated and are not exercised by the same individual.

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

Board Composition

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

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

Non-executive Directors

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

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

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

Appointment and Re-election of Directors

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

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

Responsibilities of Directors

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

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

The Board has also established written guidelines to be observed by relevant employees in respect of their dealings in the securities of the Company.

BOARD COMMITTEES

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

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Executive Board

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

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

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

Audit Committee

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

The Audit Committee is accountable to the Board and its primary role is to assist the Board to monitor the Company's financial reporting process, to consider the nature and scope of audit reviews, to ensure that effective internal control and risk management systems are in place and to review the Group's interim and annual financial statements. The Audit Committee has access to and maintains an independent communication with the external Auditors and the management to ensure effective information exchange on all relevant financial and accounting matters. The written terms of reference of the Audit Committee were revised on 14th September 2005 to conform to the code provision requirements of the Code.

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

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

- (i) Review of interim and annual financial statements of the Group, with a recommendation to the Board for approval, examination of significant matters relating to the external Auditors' interim review and annual audit, and review of the accounting policies and practices adopted by the Group;
- (ii) Review of new and/or revised accounting standards and practices applicable to the Group and their impacts to the Group;

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- (iii) Review of internal control and risk management systems and assessment of their effectiveness to ensure that appropriate measures are in place to safeguard all significant assets and operations of the Group as well as to support continuous growth;
- (iv) Review of overall accounts receivables position of the Group and the effectiveness of credit control, and reinforcing education to the management and the operation units the importance of adherence to the established credit control measures;
- (v) Review of audit strategy, approach and methodologies and assessment of key audit risks with the external Auditors in the audit planning stage; and
- (vi) Report of the findings and making recommendations to the Board for improvement or implementation in respect of the above matters.

Remuneration Committee

The Remuneration Committee of the Company was established on 27th January 2006. It comprises three members, Mr. Francis Lui Yiu Tung as the Chairman and two independent non-executive Directors, Dr. Charles Cheung Wai Bun and Dr. William Yip Shue Lam.

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

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

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

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

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

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BOARD AND BOARD COMMITTEE MEETINGS

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

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

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

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

FINANCIAL REPORTING

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

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Directors' Responsibility

The Directors acknowledge their responsibilities for preparing the financial statements of the Company, which give a true and fair view and comply with all applicable regulatory requirements and accounting standards. In preparing the financial statements for the year ended 31st December 2005, the Directors have selected appropriate accounting policies and applied them consistently, and made judgements and estimates that are prudent and reasonable. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern as at 31st December 2005. Accordingly, the Directors have prepared the financial statements on a going concern basis.

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

Auditors' Responsibility

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

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

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

Auditors' Remuneration

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

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

COMMUNICATION WITH SHAREHOLDERS

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

The Company holds press conferences, analysts briefings and investor meetings after the announcement of its annual and interim results. The Company's website www.galaxyentertainment.com contains an investor relations section which offers timely access to our press releases and other business information. Our Directors are available at the Company's annual and extraordinary general meetings to answer questions and provide information which shareholders may enquire.

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

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COMPLIANCE WITH THE CODE

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

GAMING AND ENTERTAINMENT



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

