

MANAGEMENT DISCUSSION AND ANALYSIS

ACQUISITION OF GAMING AND ENTERTAINMENT BUSINESS

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

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

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

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

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

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



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REVIEW OF OPERATION

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

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

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

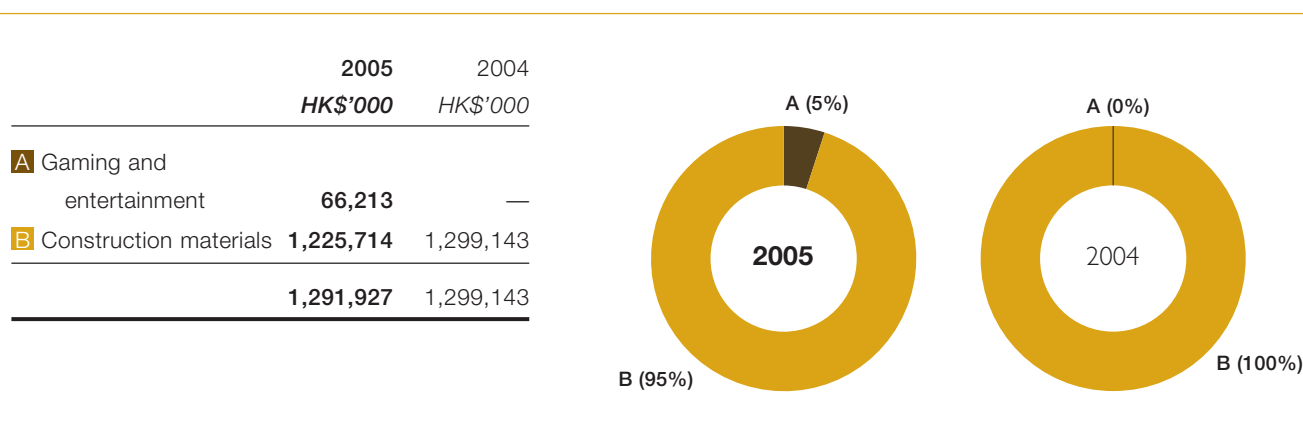
	Gaming and entertainment <i>HK\$'000</i>	Construction materials <i>HK\$'000</i>	Corporate <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover	66,213	1,225,714	—	1,291,927
Other revenues	2,095	13,721	36,213	52,029
Operating profit	2,624,750	3,683	(38,343)	2,590,090
Finance costs				(116,423)
Share of profits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

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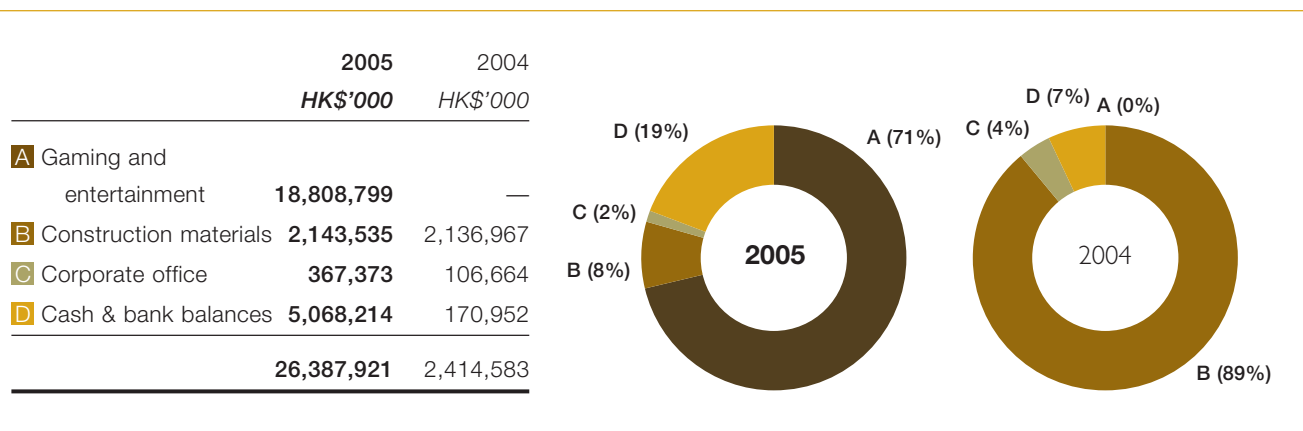
EBITDA EXCLUDING NON-RECURRING ITEMS

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

TURNOVER BY DIVISION

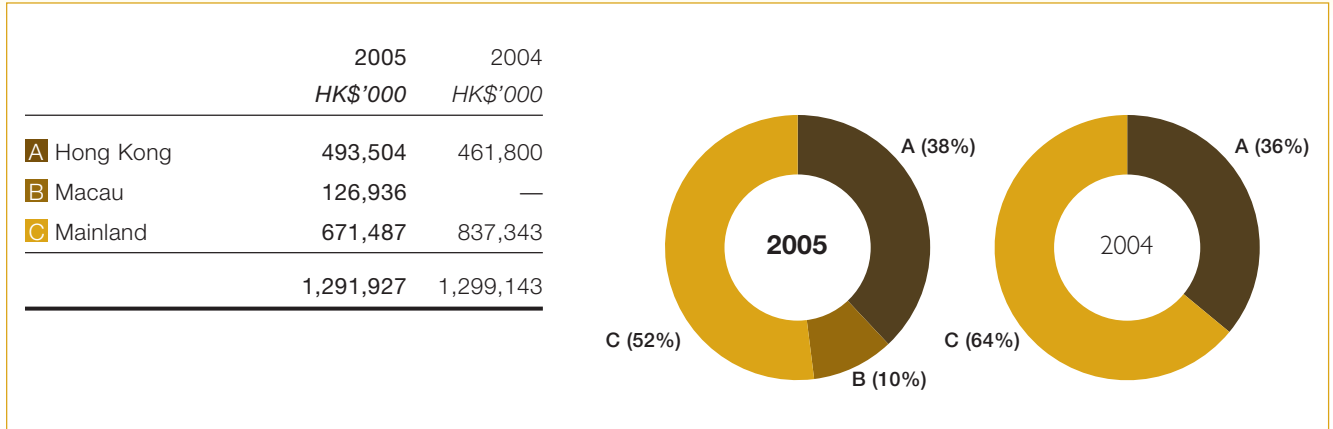


EMPLOYMENT OF GROSS ASSETS

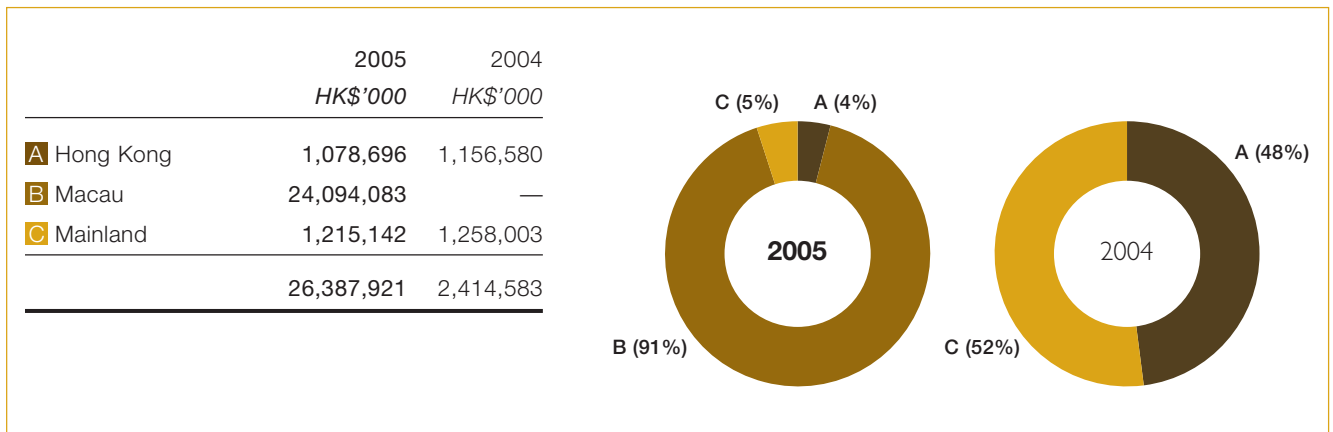


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TURNOVER BY GEOGRAPHICAL SPREAD



GROSS ASSETS BY GEOGRAPHICAL SPREAD



MANAGEMENT DISCUSSION AND ANALYSIS

GAMING AND ENTERTAINMENT DIVISION

Overview

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

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

StarWorld

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

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

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

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

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

Cotai Mega Resort

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

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

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

Cotai Mega Resort is targeted to commence operation in 2008.

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Galaxy City Clubs

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

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

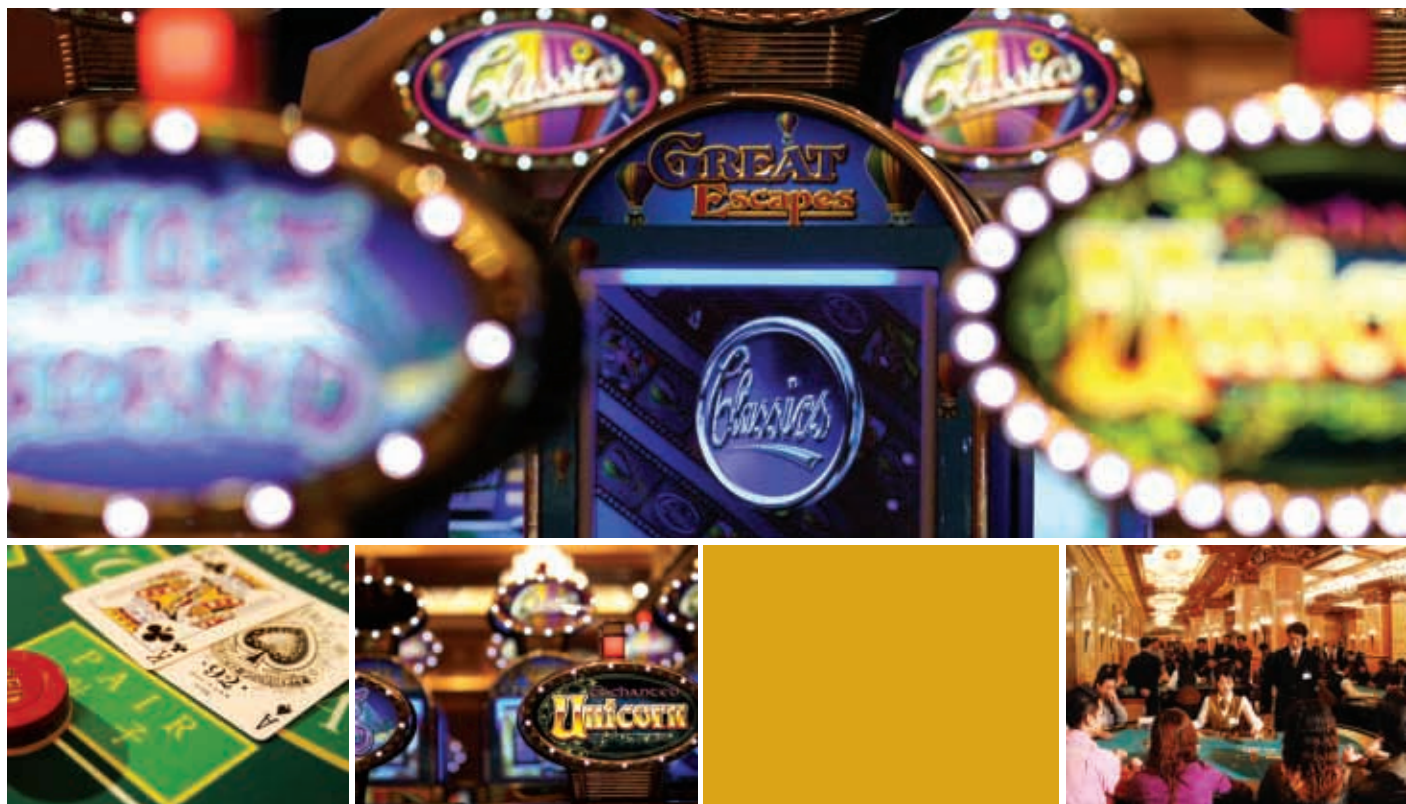
Grand Waldo Casino, with 100 gaming tables and 350 electronic machines on the main gaming floor and 46 VIP gaming tables in 16 VIP rooms is scheduled to commence operation shortly.

Bond Issue

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

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

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



SOLID FOUNDATION



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



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CONSTRUCTION MATERIALS DIVISION

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

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

Construction Materials Business in Hong Kong and Macau

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

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

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

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

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

Construction Materials Business in the Mainland

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

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

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

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

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

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

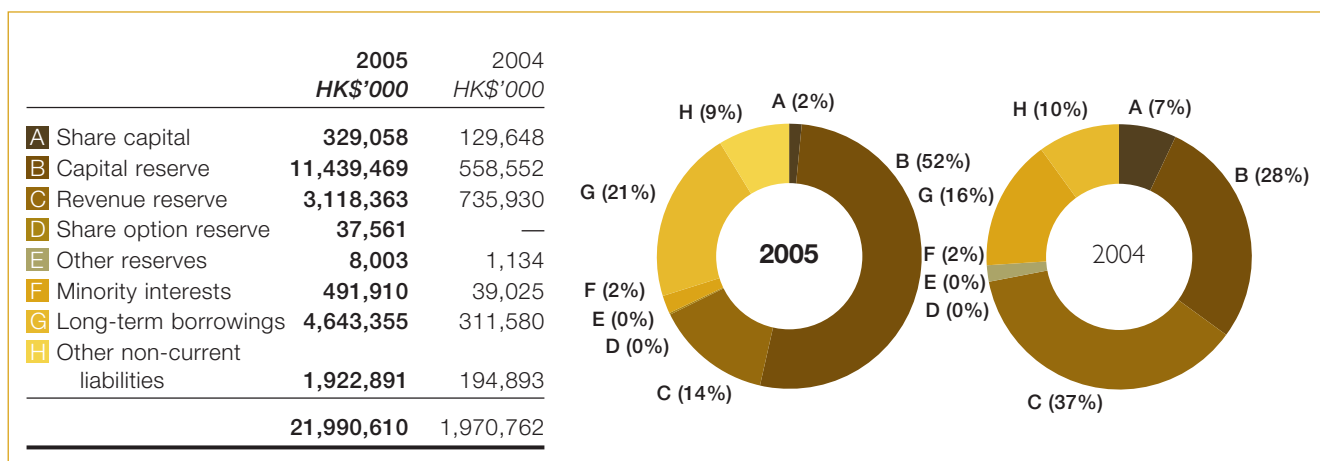
LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

SOURCES OF FUNDING



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

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

GEARING RATIO

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

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TREASURY POLICY

The Group continues to adopt a conservative treasury policy with all bank deposits in either Hong Kong Dollars, United States Dollars or in the local currencies of the operating subsidiaries, keeping a minimum exposure to foreign exchange risks. All of the Group's borrowings are in either Hong Kong Dollars, United States Dollars or Renminbi. Forward foreign exchange contracts are utilised when suitable opportunities arise and when considered appropriate, to hedge against foreign exchange exposure. The Group has not engaged in the use of other derivative products, which are considered not necessary for the Group's treasury management activities.

CHARGES ON GROUP ASSETS

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

CONTINGENT LIABILITIES

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

EMPLOYEES AND REMUNERATION POLICY

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

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