NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

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

2. BASIS OF PREPARATION

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

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

(a) Changes in accounting policies

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

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

2. BASIS OF PREPARATION (CONT'D)

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

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

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

(1) The adoption of the revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of prepayments of lease premiums from property, plant and equipment to leasehold land and land use rights. The up-front prepayments made for the leasehold land and land use rights are expensed in the profit and loss statement on a straight-line basis over the period of the lease unless the property is under development or when there is impairment, the impairment is expensed in the profit and loss statement. In previous years, the leasehold land classified under property, plant and equipment was accounted for at fair value or cost less accumulated depreciation and impairment.

(2) The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss (including other investments) and available-for-sale financial assets. It has also resulted in the change in the recognition and measurement of loans and receivables, borrowings and hedging activities. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently stated at amortised cost using effective interest method.

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

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

2. BASIS OF PREPARATION (CONT'D)

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

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

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

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

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

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

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

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

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

2. BASIS OF PREPARATION (CONT'D)

(b) Impact to 2005 financial statements

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

(i) *Consolidated profit and loss statement*

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

2. BASIS OF PREPARATION (CONT'D)

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

(ii) *Consolidated balance sheet*

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

2. BASIS OF PREPARATION (CONT'D)

(c) Impact to 2004 financial statements

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

(i) *Consolidated profit and loss statement*

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

2. BASIS OF PREPARATION (CONT'D)

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

(ii) *Consolidated balance sheet*

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

2. BASIS OF PREPARATION (CONT'D)

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

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

Effective for the year ending 31st December 2006

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

Effective for the year ending 31st December 2007

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31st December and the share of post acquisition results and reserves of its jointly controlled entities and associated companies attributable to the Group.

Results attributable to subsidiaries, jointly controlled entities and associated companies acquired or disposed of during the year are included in the consolidated profit and loss statement from the date of acquisition or to the date of disposal as applicable.

The profit or loss on disposal of subsidiaries, jointly controlled entities or associated companies is calculated by reference to the share of net assets at the date of disposal including the attributable amount of goodwill not yet written off.

3.2 Subsidiaries

Subsidiaries are companies in which the Group has the power to exercise control governing the financial and operating policies of the company, generally accompanying a direct or indirect shareholding of more than half the voting power or holds more than half of the issued equity capital. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the balance sheet of the Company, investments in subsidiaries are carried at cost less impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend income.

3.3 Minority interests

Minority interests represent the interest of outside shareholders in the operating results and net assets of subsidiaries.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals of equity interests to minority interests result in gains and losses for the Group that are recorded in the profit and loss statement. Purchases of equity interests from minority interests result in goodwill, being the difference between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary being acquired.

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

3.4 Jointly controlled entities

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

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

In the balance sheet of the Company, investments in jointly controlled entities are stated at cost less provision for impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividend income.

3.5 Associated companies

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

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

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

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

3.6 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the share of the net identifiable assets of the acquired subsidiary, jointly controlled entity and associated company attributable to the Group at the effective date of acquisition, and, in respect of an increase in holding in a subsidiary, the excess of the cost of acquisition and the carrying amount of the proportion of the minority interests acquired. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Goodwill on acquisition of subsidiaries is included in intangible assets while goodwill on acquisition of jointly controlled entities and associated companies is included in investments in jointly controlled entities and associated companies. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

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

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

3.7 Property, plant and equipment

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

No depreciation is provided on assets under construction until it is completed and is ready in use. Buildings on leasehold land and improvements are depreciated over their respective lease periods using the straight-line method. Depreciation of other property, plant and equipment is calculated using the straight-line method over their estimated useful lives as follows:

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

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

The residual values and useful lives of the assets are reviewed and adjusted if appropriate, at each balance sheet date. Where the carrying amount of an asset is greater than its recoverable amount, it is written down immediately to its estimated recoverable amount.

Profit or loss on disposal is determined as the difference between the net sales proceed and the carrying amount of the relevant asset, and is recognised in the profit and loss statement.

3.8 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property. Investment property comprises freehold land, land held under operating leases and buildings held under finance leases. Land held under operating leases is classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

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

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

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

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

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

3.9 Gaming licence

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

3.10 Computer software

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

3.11 Impairment of assets

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

3.12 Deferred expenditure

Quarry site development represents costs of constructing infrastructure at the quarry site to facilitate excavation. Overburden removal costs are incurred to bring the quarry site into a condition ready for excavation. Quarry site improvements represent estimated costs for environmental restoration and any changes in the estimates are adjusted in the carrying value of the quarry site improvements. These costs are amortised over the estimated useful lives of the quarries and sites concerned using the straight-line method.

Pre-operating costs are expensed as they are incurred.

3.13 Investments

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

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

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

(b) *Loans and receivables*

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

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

3.13 Investments (Cont'd)

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

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

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

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

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

3.14 Derivative financial instruments

Derivative financial instruments mainly represent put option of shares, are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at fair value. Changes in fair value are recognised in the profit and loss statement.

3.15 Debtors and prepayments

Debtors and prepayments are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of debtors and prepayments is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss statement.

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

3.16 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of construction materials is calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of production overhead expenditure. Cost of playing cards is determined using the first-in, first-out method. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

3.17 Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances, deposits with banks and financial institutions repayable within three months from the date of placement, less bank overdrafts and advances from banks and financial institutions repayable within three months from the date of advance.

3.18 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

When the Company re-purchases its equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the equity holders and the shares are cancelled.

3.19 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the profit and loss statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

3.20 Leases

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

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

3.21 Provisions

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

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

3.22 Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred taxation assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, jointly controlled entities and associated companies, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

3.23 Employee benefits

(a) *Employees entitlement, benefits and bonus*

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

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

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

(b) *Share-based compensation*

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the share options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Company revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the profit and loss statement with a corresponding adjustment to equity.

3.24 Borrowing costs

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

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

3.25 Revenue recognition

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

(a) *Gaming operations*

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

(b) *Construction materials*

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

(c) *Rental income*

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

(d) *Administrative fee*

Administrative fee is recognised when the services have been rendered.

(e) *Interest income*

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

(f) *Dividend income*

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

3.26 Foreign currencies

(a) *Functional and presentation currency*

Transactions included in the financial statements of each of the entities in the Group are measured using the currency of the primary economic environment in which the Group operates (the "functional currency"). The functional and presentation currency of the Company is Hong Kong dollars.

(b) *Transactions and balances*

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

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

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

3.26 Foreign currencies (Cont'd)

(c) *Group companies*

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

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each profit and loss statement are translated at average exchange rates; and

(iii) all resulting exchange differences are recognised as a separate component of equity.

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

3.27 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

3.28 Dividend distribution

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

4. FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

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

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

(a) *Credit risk*

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

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

4. FINANCIAL RISK MANAGEMENT (CONT'D)

4.1 Financial risk factors (Cont'd)

(b) *Liquidity risk*

Liquidity risk is the risk that the Group is unable to meet its current obligations when they fall due.

The Group measures and monitors its liquidity through the maintenance of prudent ratios regarding the liquidity structure of the overall assets, liabilities, loans and commitments of the Group.

The Group also maintains a conservative level of liquid assets to ensure the availability of sufficient cash flows to meet any unexpected and material cash requirements in the course of ordinary business. In addition, standby facilities are established to provide contingency liquidity support.

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

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

The Group follows a policy of developing long-term banking facilities to match its long-term investments in Hong Kong, Macau and Mainland China. The policy also involves close monitoring of interest rate movements and replacing and entering into new banking facilities when favourable pricing opportunities arise.

The interest rate risk of the Group arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

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

(d) *Foreign exchange risk*

The Group operates in Hong Kong, Macau and Mainland China and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Renminbi and Macau Patacas.

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

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

(e) *Price risk*

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

4. FINANCIAL RISK MANAGEMENT (CONT'D)

4.2 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

In assessing the fair value of non-trading securities and other financial assets, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The fair values of long-term borrowings are estimated using the expected future payments discounted at market interest rates.

The nominal values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year; including debtors and prepayments, creditors and accruals and current borrowings are assumed to approximate their fair values.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities are discussed below:

(a) Impairment of goodwill

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

(b) Impairment of gaming licence

Gaming licence represents the fair value of licence acquired on the acquisition of Galaxy and is amortised on a straight line basis over its estimated useful life, which is currently seventeen years. The Group tests whether the licence has suffered any impairment based on value-in-use calculations. The methodologies are based upon estimates of future results, assumptions as to income and expenses of the business, future economic conditions on growth rates and estimation of the future returns.

(c) Useful lives of property, plant and equipment

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

(d) Fair value of investment properties

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

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

(e) Impairment of available-for-sale financial assets

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The fair value also reflects the discounted cashflows that could be expected from the ultimate sale after deducting the estimated expenses directly associated with the sale.

(f) Provisions

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

(g) Share-based payments

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

(h) Income taxes

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

6. SEGMENT INFORMATION

The Group is principally engaged in the operation in casino games of chance or games of other forms, manufacture, sale and distribution of construction materials. In accordance with the internal financial reporting and operating activities of the Group, the primary segment reporting is by business segments and the secondary segment reporting is by geographical segments.

Segment assets consist primarily of property, plant and equipment, investment properties, leasehold land and land use rights, intangible assets, other non-current assets, inventories, debtors and prepayments, and mainly exclude investments, derivative financial instruments, tax recoverable and cash and bank balances. Segment liabilities comprise mainly creditors, accruals and provisions. There are no sales or trading transaction between the business segments.

6. SEGMENT INFORMATION (CONT'D)

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

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

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

6. SEGMENT INFORMATION (CONT'D)

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

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

7. TURNOVER AND OTHER REVENUES

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

7. TURNOVER AND OTHER REVENUES (CONT'D)

(a) The Group currently operates its first city club casino, Waldo Casino, for which the Group has entered into agreements (the "Waldo Agreements") with certain parties (the "Service Providers") for a term equal to the life of the concession agreement with the Government of Macau Special Administrative Region (the "Macau Government") up to June 2022.

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

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

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

8. OPERATING PROFIT

	2005	2004
	HK$'000	HK$'000
Operating profit is stated after crediting:		
Gain on disposal of available-for-sale financial assets	**36,554**	—
Change in fair value of derivative financial instrument	**2,074**	—
Change in fair value of listed investments	**6,522**	—
Change in fair value of investment properties	**—**	22,230
Foreign exchange gain	**—**	823
Amortisation of negative goodwill	**—**	632
and after charging:		
Depreciation	**77,622**	70,825
Amortisation		
Quarry site development	**1,905**	1,780
Overburden removal costs	**16,192**	16,400
Gaming licence	**418,762**	—
Computer software	**82**	—
Quarry site improvements	**15,120**	15,120
Leasehold land and land use rights *(note a)*	**6,385**	6,305
Operating lease rental		
Land and buildings	**9,049**	13,067
Plant and machinery	**3,607**	—
Royalty	**5,906**	5,003
Loss on disposal of property, plant and equipment	**107**	1,109
Cost of inventories sold	**1,062,157**	1,141,258
Staff costs, including Directors' remuneration *(note b)*	**254,802**	163,353
Impairment of available-for-sale financial assets	**1,505**	2,880
Impairment of property, plant and equipment	**13,070**	—
Impairment of debtors and other receivables	**28,500**	—
Loss on disposal of listed investments	**—**	2,893
Unrealised loss of listed investments	**—**	933
Change in fair value of investment properties	**2,500**	—
Foreign exchange loss	**1,681**	—
Outgoings in respect of investment properties	**652**	270
Auditors' remuneration		
Audit services	**1,847**	1,038
Non-audit services *(note c)*	**262**	190

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

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

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

9. MANAGEMENT REMUNERATION

(a) Directors' remuneration

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

(b) Five highest paid individuals

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

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

9. MANAGEMENT REMUNERATION (CONT'D)

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

The emoluments of these individuals fell within the following bands:

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

(c) Retirement benefit schemes

In Hong Kong, the Group makes monthly contributions to the Mandatory Provident Fund (MPF) Scheme equal to 5% of the employee's relevant income in compliance with the legislative requirement. In addition, the Group also makes defined top-up contributions to the same scheme or the Occupational Retirement Scheme Ordinance (ORSO) Scheme for employees depending on circumstance. For the top-up schemes, the Group's contributions to the schemes may be reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the Schemes are held separately from those of the Group in independently administered funds.

The Group also operates a defined contribution scheme for eligible employees in Macau. The Galaxy Staff Pension Fund Scheme is established and managed by an independent management company appointed by the Group. The scheme is a unitised scheme. Both the Group and the employees make equal share of monthly contributions to the scheme. The employee's standard contribution is deducted from the employee's monthly salary by the Group and paid to the management company.

Employees in Mainland China participate in various pension plans organised by the relevant municipal and provincial governments under which the Group is required to make monthly defined contributions to these plans at rates ranging from 6% to 22.5%, dependent upon the applicable local regulations. The Group has no other obligations for the payment of pension and other post-retirement benefits of employees other than the above payments.

The costs of the retirement benefit schemes charged to the profit and loss statement during the year comprise contributions to the schemes of HK$15,443,000 (2004: HK$12,307,000), after deducting forfeitures of HK$434,000 (2004: HK$419,000), leaving HK$171,000 (2004: HK$47,000) available to reduce future contributions.

(d) Share options

The value of the share options granted to the Directors and employees under the share option scheme of the Company represents the fair value of these options charged to the profit and loss statement for the year in accordance with HKFRS 2. The remuneration for 2004 does not include any value for the share options granted since HKFRS 2 becomes effective for 2005 but does not require retrospective application for share options vested on or before 1st January 2005.

10. FINANCE COSTS

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

11. TAXATION

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

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits for the year after setting off available taxation losses brought forward. Taxation assessable on profits generated outside Hong Kong has been provided at the rates of taxation prevailing in the countries in which those profits arose.

11. TAXATION (CONT'D)

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

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

12. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

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

13. EARNINGS PER SHARE

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

	2005 HK$'000	2004 HK$'000
Profit for calculation of basic and diluted earnings per share	**2,395,269**	55,886

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

14. DIVIDENDS

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

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

15. PROPERTY, PLANT AND EQUIPMENT

Group

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

(a) Other assets comprise barges, furniture and equipment and motor vehicles.

(b) The net book amount of gaming equipment held under finance leases amounts to HK$382,000 (2004: nil).

(c) During the year, borrowing costs of HK$4,865,000 (2004: nil) arising on financing specifically entered into for the construction of a building, as well as amortisation of prepayments of lease premium of HK$52,636,000 (2004: nil), have been capitalised and included in assets under construction. A capitalisation rate of 4.8% was used, representing the borrowing cost of the loan used to finance the project.

16. INVESTMENT PROPERTIES

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

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

17. LEASEHOLD LAND AND LAND USE RIGHTS

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

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

18. INTANGIBLE ASSETS

Group

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

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

19. SUBSIDIARIES

	Company **2005** ***HK$'000***	 2004 *HK$'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 are unsecured, interest free and have no fixed term of repayment.

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

20. JOINTLY CONTROLLED ENTITIES

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

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

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

(b) Share of results of jointly controlled entities includes share of impairment of property, plant and equipment and inventories of HK$66,000,000 (2004: nil) and share of impairment of goodwill of HK$43,000,000 (2004: nil).

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

21. ASSOCIATED COMPANIES

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

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

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

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

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

23. OTHER NON-CURRENT ASSETS

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

(a) Deferred receivable represents advances to various contractors. The advances are secured by assets provided by the contractors, carry interest at prevailing market rate and are repayable by monthly instalments up to 2009. The current portion of the receivable is included under other receivables.

(b) Restricted bank deposits are pledged to secure banking facilities extended to the Group. The banking facilities comprise a guarantee amounting to HK$485 million for the period up to 31st March 2007 and then reduced to HK$291 million for the period from 1st April 2007 to the earlier of 90 days after the expiry of the concession agreement or 31st March 2022 which is in favour of the Macau Government against the legal and contractual liabilities of the Group under the concession agreement and two revolving term loans amounting to HK$75 million.

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

24. INVENTORIES

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

25. DEBTORS AND PREPAYMENTS

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

25. DEBTORS AND PREPAYMENTS (CONT'D)

(a) The Group has established credit policies which follow local industry standards. The Group normally allows an approved credit period ranging from 30 to 60 days for customers in Hong Kong and 120 to 180 days for customers in Mainland China. These are subject to periodic reviews by management.

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

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

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

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

(b) Amounts receivable of HK$51,091,000 (2004: HK$42,705,000), of which HK$5,648,000 (2004: HK$5,645,000) are secured, carry interest at prevailing market rate and repayable in accordance with agreed terms of repayment. The remaining amounts receivable are unsecured, interest free and repayable in accordance with agreed term.

(c) The Group has recognised an impairment loss of HK$28,500,000 for its trade debtors and other receivables for the year ended 31st December 2005. The loss has been included in other operating expenses in the profit and loss statement.

26. OTHER INVESTMENTS

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

27. CASH AND BANK BALANCES

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

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

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

28. SHARE CAPITAL

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

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

(b) On 4th May 2005, the Company issued 146,000,000 new shares of HK$0.10 each at the issue price of HK$8.0 per share for cash. Net proceeds from the issue of shares were used to fund obligations of the Company for the acquisition of Galaxy (note 38a).

(c) On 22nd July 2005, the Company issued 1,840,519,798 new shares of HK$0.10 each at the issue price of HK$8.0 per share as part of the consideration for the acquisition of Galaxy (note 38a).

29. SHARE OPTION SCHEME

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

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

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

(a) Options granted

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

(b) Options exercised

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

29. SHARE OPTION SCHEME (CONT'D)

(c) Options lapsed

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

(d) Outstanding options

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

(e) Fair value of options and assumptions

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

30. RESERVES

Group

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

30. RESERVES (CONT'D)

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

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

31. BORROWINGS

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

(a) On 22nd July 2005, the Company issued HK$2,544,240,000 fixed rate notes with variable rates as part of consideration for the acquisition of Galaxy. The fixed rate notes are repayable on 21st August 2006. On 14th January 2006, holders for HK$2,371,805,000 of the fixed rate notes have agreed to amend the terms to extend the maturity date of their notes from 21st August 2006 to 30th September 2008 and change the interest rate to a fixed rate of 6% per annum.

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

The proceeds from the notes are restricted to be used for the repayment of a specific bank loan, interest payments of the notes payable, financing the construction and development of assets under construction, and for general corporate purpose (note 27).

31. BORROWINGS (CONT'D)

(c) Obligations under finance leases:

The finance lease obligations are payable in the following years:

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

(d) The maturity of borrowings:

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

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

31. BORROWINGS (CONT'D)

(e) Effective interest rates:

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

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

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

32. DEFERRED TAXATION LIABILITIES

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

Deferred taxation assets and liabilities are offset when there is a legal right to set off current taxation assets with current taxation liabilities and when the deferred taxation relates to the same authority. The above liabilities shown in the consolidated balance sheet are determined after appropriate offsetting of the relevant amounts.

32. DEFERRED TAXATION LIABILITIES (CONT'D)

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

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

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

33. PROVISIONS

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

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

34. CREDITORS AND ACCRUALS

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

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

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

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

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

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

35. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

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

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

(b) Analysis of changes in financing

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

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

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

36. CAPITAL COMMITMENTS

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

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

37. OPERATING LEASE COMMITMENTS

The future aggregate minimum lease rental expense in respect of land and buildings and equipments under non-cancellable operating leases is payable in the following periods:

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

38. BUSINESS COMBINATIONS

(a) Acquisition of Galaxy

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

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

38. BUSINESS COMBINATIONS (CONT'D)

(a) Acquisition of Galaxy (Cont'd)

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

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

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

(b) Acquisition of a concrete company in Macau

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

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

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

38. BUSINESS COMBINATIONS (CONT'D)

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

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

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

39. OPERATING LEASE RENTAL RECEIVABLE

The future aggregate minimum lease rental income in respect of land and buildings under non-cancellable operating leases is receivable in the following periods:

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

40. RELATED PARTY TRANSACTIONS

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

(a) Sales of aggregates to an associated company amounted to HK$18,230,000 (2004: HK$18,640,000) and sales of ready mixed concrete and cement to a jointly controlled entity amounted to HK$62,600,000 (2004: nil). These were made at prices and terms no less than those charged to other third party customers of the Group.

(b) In 2004, the Group received interest income of HK$579,000 in respect of loan advanced to a fellow subsidiary.

(c) Rental income from an associated company amounted to HK$9,603,000 (2004: HK$9,737,000) based on the terms of rental agreement between the parties.

(d) Finance cost on fixed rate notes issued to City Lion Profits Corp. and Recurrent Profits Limited amounted to HK$17,605,000 (2004: nil) and HK$386,000 (2004: nil) respectively based on the terms of fixed rate note between the parties. City Lion Profits Corp. is wholly owned by a discretionary trust established by Dr. Lui Che Woo as founder with Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu being either direct or indirect discretionary beneficiaries; and Recurrent Profits Limited is wholly owned by Mr. Francis Lui Yiu Tung.

40. RELATED PARTY TRANSACTIONS (CONT'D)

(e) Rental expenses of HK$1,172,000 (2004: nil) were paid to a subsidiary of K. Wah International Holdings Limited, a substantial shareholder of the Company, based on the terms of the rental agreement between the parties.

(f) Key management personnel comprise the Chairman, Deputy Chairman, Managing Director, Deputy Managing Director and other Executive Directors. The total remuneration of the key management is shown below:

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

41. CONTINGENT LIABILITIES

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

42. APPROVAL OF ACCOUNTS

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

43. PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES

(a) Subsidiaries

		Issued share capital				
Name of company	**Principal place of operation**	**Number of ordinary shares**	**Number of non-voting deferred shares**	**Par value per share** *HK$*	**Percentage of equity held by the Group**	**Principal activities**
Incorporated in Hong Kong						
Barichon Limited	Hong Kong	3,000,000	—	1	99.93	Sale and distribution of concrete pipes
Brighten Lion Limited	Hong Kong	2	—	1	100	Provision of finance
Chelsfield Limited	Hong Kong	2,111,192	—	10	100	Investment holding
Construction Materials Limited	Hong Kong	30,000	—	10	100	Sale of aggregates
Doran (Hong Kong) Limited	Hong Kong	1,000	—	10	100	Sale and distribution of concrete pipes
Galaxy Entertainment Management Services Limited	Hong Kong	1	—	1	100	Provision of management services
K. Wah Concrete Company Limited	Hong Kong	2	1,000	100	100	Manufacture, sale and distribution of ready-mixed concrete
K. Wah Construction Materials (Hong Kong) Limited	Hong Kong	2	2	10	100	Provision of management services
K. Wah Construction Products Limited	Hong Kong	2	1,000	100	100	Manufacture, sale and distribution of concrete products
K. Wah Materials Limited	Hong Kong	28,080,002	—	1	100	Trading
K. Wah Quarry Company Limited	Hong Kong	2	100,000	100	100	Sale of aggregates
K. Wah Stones (Zhu Hai) Company Limited	Zhuhai	2	1,000	10	100	Quarrying
K. Wah Trading and Development Limited	Hong Kong	2	2	10	100	Trading
KWP Quarry Co. Limited	Hong Kong	9,000,000	—	1	63.5	Quarrying
Lightway Limited	Hong Kong	2	2	1	100	Property investment
Master Target Limited	Hong Kong	2	—	1	100	Investment holding
Quanturn Limited	Hong Kong	2	—	1	100	Equipment leasing
Rainbow Country Limited	Hong Kong	2	—	1	100	Investment holding
Rainbow Mark Limited	Hong Kong	100	—	1	95	Investment holding
Rainbow States Limited	Hong Kong	2	—	1	100	Investment holding
Star Home Limited	Hong Kong	2	—	1	100	Investment holding

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

(a) Subsidiaries (Cont'd)

Name of company	Principal place of operation	Registered capital	Percentage of equity held by the Group	Principal activities
Incorporated in Mainland China				
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
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

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

(a) Subsidiaries (Cont'd)

Name of company	Principal place of operation	Issued share capital: Number of 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
Eternal Profits International Limited	Hong Kong	10	US$1	100	Property investment
Galaxy Entertainment Finance Company Limited	Macau	10	US$1	100	Financing
K. Wah Construction Materials Limited (formerly known as Fairlight Investments Limited)	Hong Kong	10	US$1	100*	Investment holding
High Regard Investments Limited	Hong Kong	10	US$1	100	Investment holding
Latent Developments Limited	Hong Kong	10	US$1	100	Investment holding
Profit Access Investments Limited	Hong Kong	10	US$1	100	Investment holding
Prosperous Fields Limited	Hong Kong	10	US$1	100	Investment holding
Taksin Profits Limited	Hong Kong	17	US$1	100	Investment holding
Woodland Assets Limited	Hong Kong	10	US$1	100	Investment holding
Incorporated in Macau					
Galaxy Casino, S.A.	Macau	951,900	MOP100,000	88.1	Casino games of chance
Majesty (International) Hotel Investment Company Limited	Macau	N/A	N/A	88.1	Property Holding
K. Wah (Macao Commercial Offshore) Company Limited	Macau	1	MOP10,000	100	Trading
Wise Concrete Limited	Macau	25,000	MOP25,000	75	Trading

* Wholly owned and directly held by the Company

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

(b) Jointly Controlled Entities

Name of company	Principal place of operation	Registered capital	Percentage of equity held by the Group	Principal activities
Incorporated in Mainland China				
Anhui Masteel K. Wah New Building Materials Co., Ltd.	Maanshan	US$4,290,000	30	Manufacture, sale and distribution of slag
Beijing Shougang K.Wah Construction Materials Co. Ltd.	Beijing	RMB50,000,000	40	Manufacture, sale and distribution of slag
Guangzhou K. Wah Nanfang Cement Limited	Guangzhou	RMB100,000,000	50	Manufacture, sale and distribution of cement
Shanghai Bao Jia Concrete Co., Ltd.	Shanghai	US$4,000,000	50	Manufacture, sale and distribution of ready-mixed concrete
Maanshan Masteel K.Wah Concrete Co. Ltd.	Maanshan	US$2,450,000	30	Manufacture, sale and distribution of ready-mixed concrete
Yunnan Kungang & K. Wah Cement Materials Co. Ltd.	Kunming	RMB660,000,000	31	Manufacture, sale and distribution of cement
Guangdong Shaogang Jia Yang New Materials Co. Ltd.	Shaoguan	US$6,000,000	35	Manufacture, sale and distribution of slag

(c) Associated Company

Name of company	Principal place of operation	Number of issued ordinary shares	Par value per share *HK$*	Percentage of equity held by the Group	Principal activities
Incorporated in Hong Kong					
Tarmac Asphalt Hong Kong Limited	Hong Kong	1,100,000	10	20	Manufacture, sale and distribution and laying of asphalt