## 1. GENERAL INFORMATION

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

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

## 2. BASIS OF PREPARATION

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

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

### (a) Changes in accounting policies

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

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

## 2. BASIS OF PREPARATION (Continued)

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

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

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 3.1 Consolidation

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

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 Subsidiaries

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

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

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

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

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

### 3.3 Minority interests

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

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

### 3.4 Jointly controlled entities and jointly controlled operations

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.4 Jointly controlled entities and jointly controlled operations (Continued)

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

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

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

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

### 3.5 Associated companies

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Goodwill

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

Goodwill on acquisition of subsidiaries is included in intangible assets while goodwill on acquisition of jointly controlled entities and associated companies is included in investments in jointly controlled entities and associated companies. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

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

3.7 Property, plant and equipment

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

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

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

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.8 Investment properties

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

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

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

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

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

### 3.9 Gaming licence

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

### 3.10 Computer software

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

### 3.11 Impairment of assets

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Deferred expenditure

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

Pre-operating costs are expensed as they are incurred.

3.13 Investments

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

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

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

(b) *Loans and receivable*

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

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.13 Investments (Continued)

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

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

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

### 3.14 Derivative financial instruments

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Derivative financial instruments (Continued)

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

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

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

3.15 Debtors and prepayments

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

3.16 Inventories

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Cash and cash equivalents

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

3.18 Share capital

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

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

3.19 Borrowings

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

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

3.20 Convertible notes

(a) *Convertible notes with equity component*

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20 Convertible notes (Continued)

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

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

(b) *Convertible notes without equity component*

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

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

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

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

3.21 Leases

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.21 Leases (Continued)

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

### 3.22 Provisions

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

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

### 3.23 Deferred taxation

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.24 Employee benefits

(a) *Employees entitlement, benefits and bonus*

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

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

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

(b) *Share-based compensation*

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

### 3.25 Borrowing costs

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

### 3.26 Revenue recognition

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.26 Revenue recognition (Continued)

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

(a) *Gaming operations*

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

(b) *Hotel operations*

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

(c) *Construction materials*

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

(d) *Rental income*

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

(e) *Administrative fee*

Administrative fee is recognised when the services have been rendered.

(f) *Interest income*

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

(g) *Dividend income*

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.27 Foreign currencies

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

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

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

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

(i) assets and liabilities for each balance sheet presented are translated at the exchange rates ruling at the date of that balance sheet;

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

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

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

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

### 3.28 Segment reporting

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.29 Dividend distribution

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

## 4. FINANCIAL RISK MANAGEMENT

### 4.1 Financial risk factors

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

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

(a) *Credit risk*

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

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

(b) *Liquidity risk*

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

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

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

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

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

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

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

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

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

(d) *Foreign exchange risk*

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

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

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

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

(e) *Price risk*

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

4.2 Fair value estimation

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

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

## 4. FINANCIAL RISK MANAGEMENT (Continued)

### 4.2 Fair value estimation (Continued)

The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

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

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

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

(b) *Fair value of investment properties*

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

(c) *Impairment of goodwill*

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(d) *Impairment of gaming licence*

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

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

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

(f) *Fair value of derivative financial instruments*

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

(g) *Provisions*

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

(h) *Share-based payments*

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

(i) *Taxation*

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

## 6. SEGMENT INFORMATION

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

### (a) Business segments

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

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

6. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

| | Gaming and entertainment HK$'000 | Construction materials HK$'000 | Unallocated HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Year ended 31st December 2005 | | | | |
| Turnover | 66,213 | 1,225,714 | — | 1,291,927 |
| Operating profit/(loss) (note a) | 2,624,750 | 3,683 | (36,609) | 2,591,824 |
| Finance costs | | | | (118,157) |
| Share of profits less losses of | | | | |
| Jointly controlled entities | — | (77,975) | — | (77,975) |
| Associated companies | — | 2,696 | — | 2,696 |
| Profit before taxation | | | | 2,398,388 |
| Taxation | | | | (1,683) |
| Profit for the year | | | | 2,396,705 |
| Capital expenditure | (19,076,899) | (73,337) | — | (19,150,236) |
| Depreciation | (765) | (76,857) | — | (77,622) |
| Amortisation | (418,844) | (39,602) | — | (458,446) |
| Excess of fair value of net assets acquired over cost of acquisition of subsidiaries | 3,039,019 | — | — | 3,039,019 |
| Impairment of property, plant and equipment | — | (13,070) | — | (13,070) |
| Impairment of debtors and other receivable | — | (28,500) | — | (28,500) |
| Impairment of non-current investments | — | — | (1,505) | (1,505) |

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

6. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

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

(b) Geographical segments

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

7. TURNOVER

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

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

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

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

## 7. TURNOVER (Continued)

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

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

## 8. OPERATING (LOSS)/PROFIT

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

8. OPERATING (LOSS)/PROFIT (Continued)

(a) Amortisation of leasehold land and land use rights is stated after amount capitalised in assets under construction of HK$26,349,000 (2005: HK$52,636,000).

(b) Staff costs include share option expenses of HK$3,661,000 (2005: HK$37,561,000).

(c) Non-audit services is stated after amount capitalised in cost of acquisitions and included as amortised cost of borrowings in the aggregate of HK$70,000 (2005: HK$7,322,000).

9. MANAGEMENT REMUNERATION

(a) Directors' remuneration

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

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

9. MANAGEMENT REMUNERATION (Continued)

(b) Five highest paid individuals

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

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

The emoluments of these individuals fell within the following bands:

| | **Number of individuals** | |
|---|---|---|
| | **2006** | 2005 |
| HK$3,500,001 – HK$4,000,000 | **—** | 1 |
| HK$4,000,001 – HK$4,500,000 | **2** | — |
| HK$5,000,001 – HK$5,500,000 | **—** | 1 |
| HK$6,000,001 – HK$6,500,000 | **1** | — |
| HK$10,500,001 – HK$11,000,000 | **1** | — |
| | **4** | 2 |

(c) Retirement benefit schemes

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

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

## 9. MANAGEMENT REMUNERATION (Continued)

### (c) Retirement benefit schemes (Continued)

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

The costs of the retirement benefit schemes charged to the profit and loss statement during the year comprise contributions to the schemes of HK$29,356,000 (2005: HK$15,443,000), after deducting forfeitures of HK$1,119,000 (2005: HK$434,000), leaving HK$292,000 (2005: HK$171,000) available to reduce future contributions.

### (d) Share options

The value of the share options granted to the Directors and employees under the share option scheme of the Company represents the fair value of these options (note 28(e)) charged to the profit and loss statement for the year according to their vesting periods.

## 10. FINANCE COSTS

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

## 11. TAXATION

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

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

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

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

## 12. LOSS ATTRIBUTABLE TO SHAREHOLDERS

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

## 13. (LOSS)/EARNINGS PER SHARE

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

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

## 14. DIVIDENDS

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

## 15. PROPERTY, PLANT AND EQUIPMENT

### Group

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

## 15. PROPERTY, PLANT AND EQUIPMENT (Continued)

### Group

| | Buildings | Leasehold improvements | Plant and machinery | Other assets | Assets under construction | Total |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Cost | | | | | | |
| At 31st December 2004 | 40,295 | 32,546 | 700,383 | 256,681 | — | 1,029,905 |
| Exchange differences | 900 | 61 | 5,168 | 3,702 | — | 9,831 |
| Acquisition of subsidiaries | — | 1,962 | — | 42,191 | 333,085 | 377,238 |
| Reclassification to finance lease receivable | — | — | — | (39,628) | — | (39,628) |
| Additions | 578 | 1,271 | 24,465 | 23,027 | 419,221 | 468,562 |
| Disposals | — | (1,062) | (3,872) | (11,699) | — | (16,633) |
| At 31st December 2005, as restated | 41,773 | 34,778 | 726,144 | 274,274 | 752,306 | 1,829,275 |
| Accumulated depreciation and impairment | | | | | | |
| At 31st December 2004 | 4,668 | 24,153 | 396,713 | 137,488 | — | 563,022 |
| Exchange differences | 97 | 12 | 1,792 | 1,652 | — | 3,553 |
| Charge for the year | 1,273 | 2,113 | 49,530 | 27,614 | — | 80,530 |
| Reclassification to finance lease receivable | — | — | — | (2,786) | — | (2,786) |
| Disposals | — | (176) | (3,560) | (12,041) | — | (15,777) |
| Impairment | 1,698 | — | 10,702 | 670 | — | 13,070 |
| At 31st December 2005, as restated | 7,736 | 26,102 | 455,177 | 152,597 | — | 641,612 |
| Net book value | | | | | | |
| At 31st December 2005, as restated | 34,037 | 8,676 | 270,967 | 121,677 | 752,306 | 1,187,663 |

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

(b) The net book amount of other equipment held under finance leases amounts to HK$127,000 (2005: HK$382,000).

(c) During the year, borrowing costs of HK$72,060,000 (2005: HK$4,865,000) arising on financing specifically entered into for the construction of a building, as well as amortisation of prepayments of lease premium of HK$26,349,000 (2005: HK$52,636,000), have been capitalised and included in assets under construction. A capitalisation rate of 5.96% (2005: 4.8%) was used, representing the effective borrowing cost of the loan used to finance the project.

## 16. INVESTMENT PROPERTIES

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

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

## 17. LEASEHOLD LAND AND LAND USE RIGHTS

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

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

## 18. INTANGIBLE ASSETS

Group

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

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

## 19. SUBSIDIARIES

| | Company 2006 HK$'000 | Company 2005 HK$'000 |
|---|---|---|
| Unlisted shares, at cost | **1** | 1 |

The loans receivable are unsecured, carry interest at prevailing market interest rate and have no fixed terms of repayment.

The amounts receivable and payable are unsecured, interest free and have no fixed term of repayment.

Details of the subsidiaries which, in the opinion of the Directors, materially affect the results or net assets of the Group are given in note 42(a).

## 20. JOINTLY CONTROLLED ENTITIES

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

## 20. JOINTLY CONTROLLED ENTITIES (Continued)

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

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

(b) Details of jointly controlled entities which, in the opinion of the Directors, materially affect the results or net assets of the Group are given in note 42(b).

## 21. ASSOCIATED COMPANIES

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

## 21. ASSOCIATED COMPANIES (Continued)

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

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

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

## 22. OTHER NON-CURRENT ASSETS

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

22. OTHER NON-CURRENT ASSETS (Continued)

(a) Non-current investments

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

(b) Finance lease receivable

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

The finance lease is receivable in the following years:

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

(c) Derivative financial instruments

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

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

## 22. OTHER NON-CURRENT ASSETS (Continued)

(d) Deferred receivable represents advances to various contractors. The advances are secured by assets provided by the contractors, carry interest at prevailing market rate and are repayable by monthly instalments up to 2012. The current portion of the receivable is included under other debtors.

(e) Restricted bank deposits are pledged to secure banking facilities extended to the Group. The banking facilities comprise a guarantee amounting to HK$485 million (2005: HK$485 million) for the period up to 31st March 2007 and then reduced to HK$291 million for the period from 1st April 2007 to the earlier of 90 days after the expiry of the concession agreement or 31st March 2022 which is in favour of the Macau Government against the legal and contractual liabilities of the Group under the concession agreement and two revolving term loans amounting to HK$75 million (2005: HK$75 million).

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

## 23. INVENTORIES

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

## 24. DEBTORS AND PREPAYMENTS

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

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

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

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

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

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

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

24. DEBTORS AND PREPAYMENTS (Continued)

(b) Amounts receivable of HK$34,483,000 (2005: HK$51,091,000), of which HK$5,648,000 (2005: HK$5,648,000) are secured, carry interest at prevailing market rate and repayable in accordance with agreed terms of repayment. The remaining amounts receivable are unsecured, interest free and repayable in accordance with agreed term. The amounts receivable are denominated in Renminbi.

(c) Amount receivable is unsecured, interest free and repayable in accordance with agreed term.

(d) The Group has recognised a reversal of impairment loss of HK$2,643,000 (2005: impairment loss of HK$28,500,000) for its trade and other debtors for the year.

25. OTHER INVESTMENTS

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

26. CASH AND BANK BALANCES

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

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

## 26. CASH AND BANK BALANCES (Continued)

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

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

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

## 27. SHARE CAPITAL

| | **Ordinary shares of HK$0.10 each** | HK$'000 |
|---|---|---|
| Authorised: | | |
| **At 31st December 2005 and 2006** | 6,888,000,000 | 688,800 |
| Issued and fully paid: | | |
| At 31st December 2004 | 1,296,475,563 | 129,648 |
| Issue of new shares (note a) | 146,000,000 | 14,600 |
| Issue of new shares for acquisition of subsidiaries (note b) | 1,840,519,798 | 184,052 |
| Issue of shares upon exercise of share options | 7,584,000 | 758 |
| At 31st December 2005 | 3,290,579,361 | 329,058 |
| Issue of shares upon exercise of share options | 5,538,000 | 554 |
| **At 31st December 2006** | **3,296,117,361** | **329,612** |

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

(b) On 22nd July 2005, the Company issued 1,840,519,798 new shares of HK$0.10 each at the issue price of HK$8 per share as part of the consideration for the acquisition of Galaxy.

## 28. SHARE OPTION SCHEME

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

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

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

### (a) Options granted

No options were granted during the year. Share options were granted on 21st October 2005 at the exercise price of HK$4.59 per share which will expire on 21st October 2011. Consideration received was HK$97 in respect of the share options granted in 2005.

### (b) Options exercised

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

28. SHARE OPTION SCHEME (Continued)

(c) Options lapsed

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

(d) Outstanding options

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

(e) Fair value of share options and assumptions

The fair value of options granted on 21st October 2005 determined using the Black-Scholes valuation model was HK$41,713,000. The significant inputs into the model were share price of HK$4.425 at the grant date, exercise price of HK$4.59, standard deviation of expected share price returns of 35%, expected life of options of 2.5 to 3 years, expected dividend paid out rate of 2% and annual risk-free interest rate of 4.075%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices of comparable companies over the past 260 trading days.

## 29. RESERVES

### Group

| | Share premium HK$'000 | Capital reserve HK$'000 | Capital redemption reserve HK$'000 | Hedging reserve HK$'000 | Investment reserve HK$'000 | Share option reserve HK$'000 | Exchange reserve HK$'000 | Revenue reserve HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| At 1st January 2006 | 11,435,004 | 4,395 | 70 | — | (3,871) | 37,561 | 11,874 | 3,118,363 | 14,603,396 |
| Exchange differences | — | — | — | — | — | — | 40,528 | — | 40,528 |
| Change in fair value of cash flow hedges | — | — | — | 47,072 | — | — | — | — | 47,072 |
| Issue of shares upon exercise of share options | 21,955 | — | — | — | — | (3,883) | — | — | 18,072 |
| Fair value of share options | — | — | — | — | — | 3,661 | — | — | 3,661 |
| Share options lapsed | — | — | — | — | — | (412) | — | 412 | — |
| Change in fair value of non-current investments | — | — | — | — | 122,004 | — | — | — | 122,004 |
| Loss for the year | — | — | — | — | — | — | — | (1,531,546) | (1,531,546) |
| **At 31st December 2006** | **11,456,959** | **4,395** | **70** | **47,072** | **118,133** | **36,927** | **52,402** | **1,587,229** | **13,303,187** |
| At 1st January 2005 | 554,087 | 4,395 | 70 | — | — | — | 1,134 | 736,066 | 1,295,752 |
| Exchange differences | — | — | — | — | — | — | 10,740 | — | 10,740 |
| Issue of new shares for acquisition of subsidiaries | 9,754,755 | — | — | — | — | — | — | — | 9,754,755 |
| Issue of new shares for cash | 1,122,971 | — | — | — | — | — | — | — | 1,122,971 |
| Issue of shares upon exercise of share options | 3,191 | — | — | — | — | — | — | — | 3,191 |
| Fair value of share options | — | — | — | — | — | 37,561 | — | — | 37,561 |
| Change in fair value of non-current investments | — | — | — | — | (3,871) | — | — | — | (3,871) |
| Profit for the year | — | — | — | — | — | — | — | 2,395,269 | 2,395,269 |
| 2004 final dividend | — | — | — | — | — | — | — | (12,972) | (12,972) |
| At 31st December 2005 | 11,435,004 | 4,395 | 70 | — | (3,871) | 37,561 | 11,874 | 3,118,363 | 14,603,396 |

29. RESERVES (Continued)

Company

| | Share premium HK$'000 | Capital reserve HK$'000 | Capital redemption reserve HK$'000 | Share option reserve HK$'000 | Revenue reserve HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 31st December 2005 | 11,435,004 | 235,239 | 70 | 35,561 | 332,540 | 12,038,414 |
| Issue of shares upon exercise of share options | 21,955 | — | — | (3,883) | — | 18,072 |
| Fair value of share options | — | — | — | 5,661 | — | 5,661 |
| Share options lapsed | — | — | — | (412) | 412 | — |
| Loss for the year | — | — | — | — | (68,975) | (68,975) |
| **At 31st December 2006** | **11,456,959** | **235,239** | **70** | **36,927** | **263,977** | **11,993,172** |
| At 31st December 2004 | 554,087 | 235,239 | 70 | — | 492,776 | 1,282,172 |
| Issue of new shares for acquisition of subsidiaries | 9,754,755 | — | — | — | — | 9,754,755 |
| Issue of new shares for cash | 1,122,971 | — | — | — | — | 1,122,971 |
| Issue of shares upon exercise of share options | 3,191 | — | — | — | — | 3,191 |
| Fair value of share options | — | — | — | 35,561 | — | 35,561 |
| Loss for the year | — | — | — | — | (147,264) | (147,264) |
| 2004 final dividend | — | — | — | — | (12,972) | (12,972) |
| At 31st December 2005 | 11,435,004 | 235,239 | 70 | 35,561 | 332,540 | 12,038,414 |

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

## 30. BORROWINGS

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

(a) On 22nd July 2005, the Company issued HK$2,544,240,000 fixed rate notes, which would mature on 21st August 2006, with variable rates as part of consideration for the acquisition of Galaxy. On 14th January 2006, holders for HK$2,371,805,000 of the fixed rate notes have agreed to amend the terms to extend the maturity date of their notes from 21st August 2006 to 30th September 2008 and change the interest rate to a fixed rate of 6% per annum. On 22nd May 2006, the remaining HK$172,435,000 of the fixed rate notes, plus accrued interest of HK$3,401,000, have been fully paid by the Group.

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

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

30. BORROWINGS (Continued)

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

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

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

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

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

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

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

30. BORROWINGS (Continued)

(c) (Continued)

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

(i) The valuation is based on the assumption that the Convertible Notes will continue without default, delay in payments and no earlier redemption.

(ii) The volatility of the share price of the Company is based on the share price movements for the six years prior to the issuance of the Convertible Notes with expected volatility of 50%.

(iii) The risk free rate is based on the yield of Exchange Fund Notes as at the respective dates, with maturity in accordance with the life of the Convertible Notes.

(iv) The expected dividend paid out rate is 0.1% during the life of the Convertible Notes.

(d) Obligations under finance leases

The finance lease obligations are payable in the following years:

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

(e) The borrowings are repayable as follows:

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

30. BORROWINGS (Continued)

(e) (Continued)

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

(f) Effective interest rates

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

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

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

## 30. BORROWINGS (Continued)

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

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

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

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

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

## 31. DEFERRED TAXATION LIABILITIES

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

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

## 31. DEFERRED TAXATION LIABILITIES (Continued)

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

| | Depreciation allowance HK$'000 | Tax losses HK$'000 | Fair value adjustments HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 31st December 2004 | 39,463 | (25,579) | — | 13,884 |
| Acquisition of subsidiaries | — | — | 1,764,647 | 1,764,647 |
| (Credit)/charge to profit and loss statement | (5,317) | 5,317 | — | — |
| At 31st December 2005 | 34,146 | (20,262) | 1,764,647 | 1,778,531 |
| Acquisition of subsidiaries (note 37) | 878 | — | — | 878 |
| (Credit)/charge to profit and loss statement | 4,101 | (4,105) | (817) | (821) |
| **At 31st December 2006** | **39,125** | **(24,367)** | **1,763,830** | **1,778,588** |

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

## 32. PROVISIONS

| | Group | | |
|---|---|---|---|
| | Environment restoration HK$'000 | Quarrying right HK$'000 | Total HK$'000 |
| At 31st December 2004 | 138,972 | 58,990 | 197,962 |
| Charged to the profit and loss statement | 1,650 | 12,820 | 14,470 |
| Applied during the year | (18,552) | (8,720) | (27,272) |
| At 31st December 2005 | 122,070 | 63,090 | 185,160 |
| Additional provision | 5,500 | — | 5,500 |
| Charged to the profit and loss statement | 1,460 | 12,820 | 14,280 |
| Applied during the year | (9,160) | (8,710) | (17,870) |
| **At 31st December 2006** | **119,870** | **67,200** | **187,070** |

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

## 33. CREDITORS AND ACCRUALS

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

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

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

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

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

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

## 34. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

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

## 34. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

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

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

## 35. CAPITAL COMMITMENTS

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

## 36. OPERATING LEASE COMMITMENTS

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

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

## 37. BUSINESS COMBINATIONS

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

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

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

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

## 38. OPERATING LEASE RENTAL RECEIVABLE

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

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

## 39. RELATED PARTY TRANSACTIONS

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

(a) Sales of aggregates to an associated company amounted to HK$11,356,000 (2005: HK$18,230,000) and sales of ready mixed concrete and cement to a jointly controlled entity amounted to HK$11,628,000 (2005: HK$62,600,000).

(b) Rental income from an associated company amounted to HK$5,753,000 (2005: HK$9,603,000) based on the terms of rental agreement between the parties.

(c) Interest income from a subsidiary of K. Wah International Holdings Limited ("KWIH"), a substantial shareholder of the Company, amounted to HK$3,371,000 (2005: nil) and from jointly controlled entities amounted to HK$2,073,000 (2005: HK$2,532,000) based on terms agreed among the parties.

(d) Rental expenses of HK$2,015,000 (2005: HK$ 1,172,000) were paid to a subsidiary of KWIH based on the terms of the rental agreement between the parties.

(e) Management fee received from jointly controlled entities amounted to HK$1,391,000 (2005: HK$437,000).

(f) The balances with jointly controlled entities and an associated company are disclosed in note 24.

(g) Finance costs on fixed rate notes issued to City Lion Profits Corp. and Recurrent Profits Limited amounted to HK$140,081,000 (2005: HK$52,904,000) and HK$3,073,000 (2005: HK$1,160,000) respectively based on the terms of the fixed rate notes between the parties. City Lion Profits Corp. is wholly owned by a discretionary trust established by Dr. Lui Che Woo as founder with Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu, all being Directors of the Company, being either direct or indirect discretionary beneficiaries; and Recurrent Profits Limited is wholly owned by Mr. Francis Lui Yiu Tung.

## 39. RELATED PARTY TRANSACTIONS (Continued)

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

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

## 40. GUARANTEES

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

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

## 41. APPROVAL OF FINANCIAL STATEMENTS

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

42. PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES

(a) Subsidiaries

| Name of company | Principal place of operation | Issued share capital 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 |

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

(a) Subsidiaries (Continued)

| Name of company | Principal place of operation | Issued share capital Number of ordinary shares | Number of non-voting deferred shares | Par value per share HK$ | Percentage of equity held by the Group | Principal activities |
|---|---|---|---|---|---|---|
| K. Wah Quarry Company Limited | Hong Kong | 200,002 | 100,000 | 100 | 100 | Sale of aggregates |
| K. Wah Stones (Zhu Hai) Company Limited | Zhuhai | 2 | 1,000 | 10 | 100 | Quarrying |
| K. Wah Trading and Development Limited | Hong Kong | 2 | 2 | 10 | 100 | Trading |
| KWP Quarry Co. Limited | Hong Kong | 9,000,000 | — | 1 | 63.5 | Quarrying |
| Lightway Limited | Hong Kong | 2 | 2 | 1 | 100 | Property investment |
| Master Target Limited | Hong Kong | 2 | — | 1 | 100 | Investment holding |
| Quanturn Limited | Hong Kong | 2 | — | 1 | 100 | Equipment leasing |
| Rainbow Country Limited | Hong Kong | 2 | — | 1 | 100 | Investment holding |
| Rainbow Mark Limited | Hong Kong | 100 | — | 1 | 95 | Investment holding |
| Rainbow States Limited | Hong Kong | 2 | — | 1 | 100 | Investment holding |
| Star Home Limited | Hong Kong | 2 | — | 1 | 100 | Investment holding |
| Tarmac Asphalt Hong Kong Limited | Hong Kong | 1,100,000 | — | 10 | 100 | Manufacture, sale and distribution and laying of asphalt |

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

(a) Subsidiaries (Continued)

| Name of company | Principal place of operation | Registered capital | Percentage of equity held by the Group | Principal activities |
|---|---|---|---|---|
| **Incorporated in Mainland China** | | | | |
| ***Wholly-owned foreign enterprise*** | | | | |
| Doran Construction Products (Shenzhen) Co., Ltd. | Shenzhen | HK$10,000,000 | 100 | Manufacture, sale and distribution of concrete pipes |
| K. Wah Construction Products (Shenzhen) Co., Ltd. | Shenzhen | US$1,290,000 | 100 | Manufacture, sale and distribution of concrete pipes |
| K. Wah Consultancy (Guangzhou) Co., Ltd. | Guangzhou | HK$1,560,000 | 100 | Provision of management services |
| K. Wah Consultancy (Shanghai) Co., Ltd. | Shanghai | US$350,000 | 100 | Provision of management services |
| K. Wah Quarry (Huzhou) Co., Ltd. | Huzhou | US$4,250,000 | 100 | Quarrying |
| Shanghai Jia Shen Concrete Co., Ltd. | Shanghai | RMB20,000,000 | 100 | Manufacture, sale and distribution of ready-mixed concrete |
| Shanghai K.Wah Qingsong Concrete Co. Ltd. | Shanghai | US$2,420,000 | 100 | Manufacture, sale and distribution of ready-mixed concrete |
| 深圳嘉華混凝土管樁有限公司 | Shenzhen | US$2,100,000 | 100 | Manufacture, sale and distribution of concrete piles |
| ***Cooperative joint venture*** | | | | |
| Beijing K.Wah GaoQiang Concrete Co. Ltd. | Beijing | US$2,450,000 | 100 | Manufacture, sale and distribution of ready-mixed concrete |

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

(a) Subsidiaries (Continued)

| Name of company | Principal place of operation | Registered capital | Percentage of equity held by the Group | Principal activities |
|---|---|---|---|---|
| K. Wah Materials (Huidong) Ltd. | Huidong | US$2,800,000 | 100 | Quarrying |
| Nanjing K. Wah Concrete Co., Ltd. | Nanjing | US$1,330,000 | 100 | Manufacture, sale and distribution of ready-mixed concrete |
| Shanghai Beicai Concrete Co., Ltd. | Shanghai | RMB31,500,000 | 100 | Manufacture, Sale and distribution of ready-mixed Concrete |
| Shanghai Jiajian Concrete Co., Ltd. | Shanghai | RMB17,400,000 | 60 | Manufacture, sale and distribution of ready-mixed concrete |
| Shanghai K. Wah Concrete Co., Ltd. | Shanghai | RMB10,000,000 | 100 | Manufacture, sale and distribution of ready-mixed concrete and provision of quality assurance service |
| Shanghai K. Wah Concrete Piles Co., Ltd. | Shanghai | US$2,500,000 | 100 | Manufacture, sale and distribution of concrete piles |
| ***Equity joint venture*** | | | | |
| Shanghai Ganghui Concrete Co., Ltd. | Shanghai | US$4,000,000 | 60 | Manufacture, sale and distribution of ready-mixed concrete |
| Shanghai Jiafu Concrete Co., Ltd. | Shanghai | US$1,400,000 | 55 | Manufacture, sale and distribution of ready-mixed concrete |
| Shanghai Xin Cai Concrete Co., Ltd. | Shanghai | US$2,100,000 | 99 | Manufacture, sale and distribution of ready-mixed concrete |

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

(a) Subsidiaries (Continued)

| Name of company | Principal place of operation | Number of issued ordinary shares | Par value per share | Percentage of equity held by the Group | Principal activities |
|---|---|---|---|---|---|
| **Incorporated in the British Virgin Islands** | | | | | |
| Canton Treasure Group Ltd. | Macau | 10 | US$1 | 100* | Investment holding |
| Cheer Profit International Limited | Macau | 10 | US$1 | 100 | Property investment |
| Eternal Profits International Limited | Hong Kong | 10 | US$1 | 100 | Property investment |
| Galaxy Entertainment Finance Company Limited | Macau | 10 | US$1 | 88.1 | Financing |
| K. Wah Construction Materials Limited | Hong Kong | 10 | US$1 | 100* | Investment holding |
| High Regard Investments Limited | Hong Kong | 20 | US$1 | 100 | Investment holding |
| Latent Developments Limited | Hong Kong | 10 | US$1 | 100 | Investment holding |
| Profit Access Investments Limited | Hong Kong | 10 | US$1 | 100 | Investment holding |
| Prosperous Fields Limited | Hong Kong | 10 | US$1 | 100 | Investment holding |
| Taksin Profits Limited | Hong Kong | 17 | US$1 | 100 | Investment holding |
| Woodland Assets Limited | Hong Kong | 10 | US$1 | 100 | Investment holding |

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

(a) Subsidiaries (Continued)

| Name of company | Principal place of operation | Number of issued ordinary shares | Par value per share | Percentage of equity held by the Group | Principal activities |
|---|---|---|---|---|---|
| **Incorporated in Macau** | | | | | |
| Galaxy Casino, S.A. | Macau | 951,900 | MOP100,000 | 88.1 | Casino games of chance |
| StarWorld Hotel Company Limited (formerly known as Majesty (International) Hotel Investment Company Limited) | Macau | N/A | N/A | 88.1 | Property Holding |
| K. Wah (Macao Commercial Offshore) Company Limited | Macau | 1 | MOP10,000 | 100 | Trading |
| Wise Concrete Limited | Macau | 25,000 | MOP25,000 | 75 | Trading |

* Wholly owned and directly held by the Company

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

(b) Jointly controlled entities

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

(c) Associated Company

| Name of company | Principal place of operation | Number of issued ordinary shares | Par value per share HK$ | Percentage of equity held by the Group | Principal activities |
|---|---|---|---|---|---|
| **Incorporated in Hong Kong** | | | | | |
| AHK Aggregates Limited | Hong Kong | 2,000,000 | 1 | 36.5 | Quarrying |