



GALAXY ENTERTAINMENT GROUP LIMITED

銀河娛樂集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code : 27)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE 2006

INTERIM RESULTS

The Directors of Galaxy Entertainment Group Limited (the “Company”) announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30th June 2006 as follows:

The turnover of the Group for the six months ended 30th June 2006 was HK\$1,306,321,000 representing an increase of HK\$766,749,000 over the corresponding period last year.

The loss attributable to shareholders of the Group for the six months ended 30th June 2006 amounted to HK\$734,452,000 representing a decrease of HK\$748,758,000 over the corresponding period last year.

Following the acquisition of 88.1% of the voting shares carrying 97.9% of the economic interest in Galaxy Casino, S.A (“Galaxy”) in July 2005, gaming and entertainment has become the major business of the Group and this division contributed a turnover of HK\$741,148,000 to the Group for the six months ended 30th June 2006. The loss attributable to shareholders for the six months ended 30th June 2006 included the amortisation of gaming licence of HK\$494,806,000 which arose from the acquisition of Galaxy in July 2005.

INTERIM DIVIDEND

The Board of Directors has resolved not to declare any interim dividend for the six months ended 30th June 2006 (2005: nil).

CONSOLIDATED PROFIT AND LOSS STATEMENT (UNAUDITED) For The Six Months Ended 30th June 2006

	<i>Note</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Turnover	2 & 3	1,306,321	539,572
Cost of sales		(1,207,448)	<u>(530,800)</u>
Gross profit		98,873	8,772
Other operating income		135,825	31,446
Administrative expenses		(193,439)	(30,386)
Other operating expenses		(504,922)	<u>(534)</u>
Operating (loss)/profit	2 & 4	(463,663)	9,298

Finance costs		(288,786)	(5,998)
Share of profits less losses of			
Jointly controlled entities		17,112	7,945
Associated companies		<u>504</u>	<u>1,492</u>
(Loss)/profit before taxation		(734,833)	12,737
Taxation	5	<u>(1,449)</u>	<u>(280)</u>
(Loss)/profit for the period		<u>(736,282)</u>	<u>12,457</u>
Attributable to:			
Shareholders		(734,452)	14,306
Minority interests		<u>(1,830)</u>	<u>(1,849)</u>
		<u>(736,282)</u>	<u>12,457</u>
Interim dividend	6	<u>—</u>	<u>—</u>
		<i>HK cents</i>	<i>HK cents</i>
(Loss)/earnings per share	7		
Basic		(22.3)	1.1
Diluted		<u>N/A</u>	<u>1.1</u>

CONSOLIDATED BALANCE SHEET (UNAUDITED)

As at 30th June 2006

		30th June 2006	Restated 31st December 2005
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment		2,380,119	1,187,663
Investment properties		63,000	63,000
Leasehold land and land use rights		1,590,879	1,638,620
Intangible assets		16,002,906	16,493,230
Jointly controlled entities		315,401	279,432
Associated companies		21,986	21,346
Non-current investments		211,119	66,101
Derivative financial instruments		2,325	—
Deferred taxation assets		1,262	—
Other non-current assets		<u>468,424</u>	<u>479,019</u>
		<u>21,057,421</u>	<u>20,228,411</u>
Current assets			
Inventories		97,763	86,971

Debtors and prepayments	8	1,007,491	933,791
Tax recoverable		848	1,039
Other investments		39,067	69,495
Cash and bank balances		<u>5,139,100</u>	<u>5,068,214</u>
		<u>6,284,269</u>	<u>6,159,510</u>
Total assets		<u><u>27,341,690</u></u>	<u><u>26,387,921</u></u>
EQUITY			
Share capital		329,485	329,058
Reserves		<u>13,901,694</u>	<u>14,603,396</u>
Shareholders' funds		14,231,179	14,932,454
Minority interests		<u>485,731</u>	<u>491,910</u>
Total equity		<u><u>14,716,910</u></u>	<u><u>15,424,364</u></u>
LIABILITIES			
Non-current liabilities			
Borrowings		7,085,145	4,643,355
Deferred taxation liabilities		1,778,531	1,778,531
Provisions		150,350	144,360
Other non-current liabilities		<u>180,185</u>	<u>30,618</u>
		<u>9,194,211</u>	<u>6,596,864</u>
Current liabilities			
Creditors and accruals	9	2,916,434	1,421,429
Current portion of borrowings		511,001	2,943,806
Taxation payable		<u>3,134</u>	<u>1,458</u>
		<u>3,430,569</u>	<u>4,366,693</u>
Total liabilities		<u><u>12,624,780</u></u>	<u><u>10,963,557</u></u>
Total equity and liabilities		<u><u>27,341,690</u></u>	<u><u>26,387,921</u></u>

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of Preparation and Accounting Policies

The interim financial information has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, derivative financial instruments and other investments, and in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

Except as described below, the accounting policies and methods of computation used in the preparation of the interim financial information are consistent with those used and as described in the annual financial statements for the year ended 31st December 2005.

In the current period, the Group has adopted Hong Kong (IFRIC) Interpretation (“HK(IFRIC)-Int”) 4 “Determining whether an Arrangement contains a Lease” which become effective from 1st January 2006. As a result of this change, 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 31 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. Segment Information

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

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

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

	Gaming and entertainment <i>HK\$'000</i>	Construction materials <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six months ended 30th June 2006				
Turnover	<u>741,148</u>	<u>565,173</u>	<u>—</u>	<u>1,306,321</u>
Operating profit/(loss)	(543,245)	5,818	73,764	(463,663)
Finance costs				(288,786)
Share of profits less losses of				
Jointly controlled entities	—	17,112	—	17,112
Associated companies	—	504	—	<u>504</u>
Loss before taxation				(734,833)
Taxation				<u>(1,449)</u>
Loss for the period				<u>(736,282)</u>
Capital expenditure	1,216,141	36,410	3,912	1,256,463
Depreciation	6,189	42,715	451	49,355
Amortisation	495,497	19,458	—	514,955
Impairment of property, plant and equipment	—	1,294	—	1,294
Impairment of available-for-sale financial assets	<u>—</u>	<u>—</u>	<u>4,237</u>	<u>4,237</u>
Six months ended 30th June 2005				
Turnover	<u>—</u>	<u>539,572</u>	<u>—</u>	<u>539,572</u>
Operating profit	—	4,465	4,833	9,298
Finance costs				(5,998)
Share of profits less losses of				
Jointly controlled entities	—	7,945	—	7,945
Associated companies	—	1,492	—	<u>1,492</u>
Profit before taxation				12,737
Taxation				<u>(280)</u>

Profit for the period				<u>12,457</u>
Capital expenditure	—	24,465	—	24,465
Depreciation	—	36,440	—	36,440
Amortisation	—	<u>19,307</u>	—	<u>19,307</u>

As at 30th June 2006

Segment assets	19,732,365	1,790,088	5,481,850	27,004,303
Jointly controlled entities	—	315,401	—	315,401
Associated companies	—	21,986	—	<u>21,986</u>

Total assets				<u>27,341,690</u>
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Segment liabilities	<u>2,590,943</u>	<u>559,883</u>	<u>9,473,954</u>	<u>12,624,780</u>
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As at 31st December 2005

Segment assets	18,808,799	1,842,757	5,435,587	26,087,143
Jointly controlled entities	—	279,432	—	279,432
Associated companies	—	21,346	—	<u>21,346</u>

Total assets				<u>26,387,921</u>
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Segment liabilities	<u>900,262</u>	<u>570,923</u>	<u>9,492,372</u>	<u>10,963,557</u>
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A summary of the geographical segments is set out as follows:

	Turnover <i>HK\$'000</i>	Capital expenditure <i>HK\$'000</i>	Total assets <i>HK\$'000</i>
			At 30th June 2006
Six months ended 30th June 2006			
Hong Kong	210,133	18,312	962,388
Macau	842,657	1,236,146	25,100,200
Mainland China	<u>253,531</u>	<u>2,005</u>	<u>1,279,102</u>
	<u>1,306,321</u>	<u>1,256,463</u>	<u>27,341,690</u>
			At 31st December 2005
Six months ended 30th June 2005			
Hong Kong	235,831	6,579	1,078,696
Macau	—	—	24,094,083
Mainland China	<u>303,741</u>	<u>17,886</u>	<u>1,215,142</u>
	<u>539,572</u>	<u>24,465</u>	<u>26,387,921</u>

3. Turnover

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Sales of construction materials	565,173	539,572
Revenues from gaming operations		
Net gaming wins	662,871	—
Contributions (<i>note a</i>)	72,845	—
Tips received	<u>5,432</u>	—
	<u>1,306,321</u>	<u>539,572</u>

- (a) In respect of the operations of certain city club casinos (the “City Club Casinos”), the Group entered into 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”) under which the service providers (the “Service Providers”) undertake for the provision of a steady flow of customers to the City Club 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. Revenues attributable to the Group are 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 revenues from gaming operations less all the relevant operating and administrative expenses belong to the Service Providers.

The Group considers recognising revenue from the City Club Casinos based on the agreed rates on the net gaming wins as appropriate after analysing the risks and rewards attributable to the Group. In addition, given the risks related to these leases and certain operating and administrative expenses are indemnified by the Service Providers, these expenses are not recognised as expenses of the Group as such.

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

	2006 HK\$'000
Net gaming wins	1,404,995
Tips received and other income	12,920
Interest income	9,361
	<u>1,427,276</u>
Operating expenses	
Special gaming tax and funds to the Macau Government	(565,832)
Commission and allowances to promoters	(544,102)
Staff costs	(124,591)
Administrative and others	(39,667)
	<u>(1,274,192)</u>
Contribution from gaming operations	153,084
Net entitlements of the Service Providers	(80,239)
	<u>72,845</u>

4. Operating (Loss)/Profit

	2006 HK\$'000	2005 HK\$'000
Operating (loss)/profit is stated after crediting:		
Rental income	6,794	6,759
Interest income		
Loan to a related company	3,371	—
Loans to jointly controlled entities	1,101	1,096
Bank deposits	75,179	4,853
Deferred receivable	337	383
Administrative fee	4,794	—
Realised gain on available-for-sale financial assets	3,302	—
Foreign exchange gain	1,751	—
Dividend income from unlisted investments	—	12,721
Fair value gain on listed investments	—	81
Write back of stock provision	—	1,332
Profit on disposal of property, plant and equipment	—	313
	<u> </u>	<u> </u>
and after charging:		
Depreciation	49,355	36,440
Amortisation		
Quarry site development	941	932
Overburden removal costs	7,938	7,796
Gaming licence	494,806	—
Computer software	269	—
Quarry site improvements	7,570	7,560
Leasehold land and land use rights (<i>note</i>)	3,431	3,019
Operating lease rental		
Land and buildings	8,917	12,314
Plant and machinery	1,779	—
Royalty	3,929	2,792
Loss on disposal of property, plant and equipment	17	—
Impairment of available-for-sale financial assets	4,237	—
Cost of inventories sold	517,967	487,076
	<u> </u>	<u> </u>

Note: Amortisation of leasehold land and land use rights is stated after amount capitalised in assets under construction of HK\$58,162,000 (2005: nil).

5. Taxation

	2006 HK\$'000	2005 HK\$'000
Current taxation		
Hong Kong profits tax	—	78
Mainland China profits tax	934	202
Macau Complimentary tax	1,777	—
Deferred taxation	(1,262)	—
	<u> </u>	<u> </u>
	<u>1,449</u>	<u>280</u>

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits for the period 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 areas in which those profits arose.

Share of taxation of associated companies and jointly controlled entities for the six months ended 30th June 2006 are HK\$250,000 (2005: HK\$184,000) and HK\$336,000 (2005: HK\$274,000) respectively and are included in the profit and loss statement as share of profits less losses of associated companies and jointly controlled entities.

6. Interim Dividend

The Board of Directors has resolved not to declare any interim dividend for the six months ended 30th June 2006 (2005: nil).

7. (Loss)/Earnings Per Share

The calculation of basic earnings per share is based on the loss attributable to shareholders of HK\$734,452,000 (2005: profit of HK\$14,306,000) and the weighted average number of 3,291,087,260 shares (2005: 1,345,913,125 shares) in issue during the period.

The diluted loss per share for 2006 is not presented 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\$14,306,000 and the weighted average number of 1,345,913,125 shares in issue plus 18,178,485 potential shares arising from share options.

8. Debtors and Prepayments

	30th June 2006	31st December 2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade debtors, net of provision	487,854	497,406
Amounts due from jointly controlled entities	164,618	190,266
Other receivables, net of provision	250,846	157,788
Prepayments	104,173	88,331
	<u>1,007,491</u>	<u>933,791</u>

The Group has established credit policies, which follow local industry standard. 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 review by management.

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

	30th June 2006	31st December 2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one month	102,699	130,362
Two to three months	153,973	152,782
Four to six months	50,249	98,995
Over six months	180,933	115,267
	<u>487,854</u>	<u>497,406</u>

9. Creditors and Accruals

	30th June 2006 HK\$'000	31st December 2005 HK\$'000
Trade creditors	1,011,448	393,049
Other creditors	346,420	348,778
Chips issued	1,138,580	345,924
Amounts due to jointly controlled entities	14,560	14,397
Loan from minority interests	85,080	94,288
Accrued operating expenses	316,368	219,671
Deposits received	3,978	5,322
	<u>2,916,434</u>	<u>1,421,429</u>

The aging analysis of the Group's trade creditors based on the dates of the invoices is as follows:

	30th June 2006 HK\$'000	31st December 2005 HK\$'000
Within one month	788,489	245,230
Two to three months	136,285	49,207
Four to six months	35,386	41,135
Over six months	51,288	57,477
	<u>1,011,448</u>	<u>393,049</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operation

Turnover and loss attributable to shareholders for the six months ended 30th June 2006 was HK\$1,306 million and HK\$734 million as compared to HK\$540 million and profit of HK\$14 million respectively for the corresponding period last year. The loss attributable to shareholders for the six months ended 30th June 2006 included the amortisation of gaming license of HK\$495 million which arose from the acquisition of 88.1% of the voting shares carrying 97.9% of the economic interest in Galaxy in July 2005, and net of pre-opening expenses of HK\$87 million. Following the acquisition, gaming and entertainment has become the major business of the Group and this division contributed a turnover of HK\$741 million to the Group for the six months ended 30th June 2006. The Board of Directors has resolved not to pay any interim dividend for the six months ended 30th June 2006.

Set out below is the segment analysis of the Group's operating result for the six months ended 30th June 2006:

	Gaming and entertainment <i>HK\$'M</i>	Construction materials <i>HK\$'M</i>	Corporate <i>HK\$'M</i>	2006 <i>HK\$'M</i>	2005 <i>HK\$'M</i>
Company and subsidiaries:					
Operating profit/(loss)	(543)	6	74	(463)	9
Jointly controlled entities and associates:					
Share of profits less losses before tax	—	18	—	18	10
Depreciation and amortisation	502	62	—	564	56
Non-recurring items	87	—	(20)	67	—
EBITDA excluding non-recurring items	46	86	54	186	75

Gaming and Entertainment Division

Overview

The Macau gaming market continued to record another period of double digit growth in the first half of 2006. Macau's net gaming wins increased 14% when compared to the previous corresponding period to HK\$24 billion in the first half of 2006. The total net gaming wins at Galaxy's city club casinos increased by 15% to HK\$2.3 billion for the first half of 2006 which represented a market share of 9% of the total market.

During the first half of 2006, Galaxy opened three additional city club casinos and continued with the development of StarWorld Hotel and Cotai Mega Resort. Galaxy's net wins were increased from HK\$840 million in the first quarter to HK\$1,437 million in the second quarter of 2006, and our market share was 7% for the first quarter of 2006 and 12% for the second quarter of 2006. For the first six months of 2006, Galaxy's average win per table per day was HK\$81,000 with average win per VIP table per day and per mass table per day at HK\$203,000 and HK\$21,000, respectively.

After Grand Waldo Casino's soft launching at end of May 2006, Galaxy had four city club casinos in operation starting in the month of June 2006. For the month of June 2006, Galaxy recorded a net gaming win of HK\$737 million representing 19% market share. Galaxy's net gaming win continued to climb reaching HK\$816 million representing 19% market share and HK\$894 million representing 20% market share in July 2006 and August 2006, respectively.

After deducting the Macau office overhead expenses of HK\$52 million and before the deduction of pre-opening expenses in relation to the development of StarWorld, Cotai Mega Resort and the new city club casinos of HK\$87 million, this division recorded an EBITDA of HK\$46 million for the first half of 2006.

StarWorld

StarWorld, Galaxy's first flagship casino, hotel and entertainment complex, has been completed and will shortly commence operation. The total project cost is approximately HK\$2.95 billion including all fitting upgrades and additional gaming equipment costs. StarWorld has been specifically designed and decorated to appeal to the tastes and preferences of the booming Chinese gaming market. With the opening of StarWorld, Galaxy is poised for further explosive growth. StarWorld's spectacular external lighting will change the Macau skyline forever and ensure that StarWorld is a "must-see" casino for all visitors to Macau.

StarWorld is strategically located in downtown Macau and is at the epi-centre of the Macau gaming hub. With StarWorld's unique U-Shaped hotel configuration, all 500 hotel rooms have panoramic water views.

Encompassed within the StarWorld complex is: 16,500m² of gaming space with 290 gaming tables and 371 slot machines, 500 hotel rooms, a top-end luxurious sauna and spa, a gourmet selection of Asian food delights and a dazzling night club. We are confident that StarWorld will offer a world-class service to our customers at an Asian price point.

Cotai Mega Resort

Development of Galaxy's luxurious Cotai Mega Resort is well under way and the initial development is scheduled to open in 2008. Included within this development is: 1,500 hotel rooms, 25,000 m² of gaming space with 600 gaming tables and 1,000 slot machines. Additional facilities include extensive spa, sauna and leisure facilities, an Asian paradise of gourmet food with in-excess of 20 restaurants, a range of selected specialty retail and extensive water entertainment features.

By 2012 Galaxy's Cotai Mega Resort will be expanded to include: six to eight various star-rated hotels with up to 12,000 rooms, 1,500 gaming tables, 3,000 slot machines, extensive high-end retails and multiple function and convention facilities.

Galaxy's Cotai development site is 4,700,000 sq ft in size, making it one of Macau's single largest development sites. This vast piece of land ensures Galaxy has the flexibility to grow and expand as business opportunities continue to evolve. Being the world's largest gaming market, Macau continues to experience the world's fastest growth rate in gaming revenue.

Galaxy City Club Casinos

Galaxy's city club casinos have experienced significant growth over the past six months. During this period three additional city club casinos have been opened. With Rio Casino opened in late February, President Casino opened in late April, and Grand Waldo Casino opened in late May, Galaxy's gaming tables have grown from 63 tables to 396 tables and slot machines have grown from 75 slots to 559 slots.

The operations of the city club casinos have continued to improve since the first half of 2006. The three new city club casinos, combined with Galaxy's original city club casino, Waldo Casino, have helped Galaxy to grasp a market share of 19% in the month of June.

Construction Materials Division

Overview

Business environment for construction materials during the period remains highly competitive. Notwithstanding such a tough environment, the division has managed to achieve a turnover at a similar level as that of last year, and through efforts in cost savings opportunities to enhance our competitiveness, achieved a further improvement in profit margin.

Construction Materials Business in Hong Kong and Macau

In August 2006, the Group acquired 80% interest in Tarmac Asphalt Hong Kong Limited (“Tarmac Asphalt”). Since then, Tarmac Asphalt has become a wholly owned subsidiary of the Group. The acquisition provides an opportunity for the Group to increase its equity interest in and control over Tarmac Asphalt which broadens the earning base of the Group’s construction materials division.

The market in Macau remained very active during the period. The division’s Macau operation established last year has recorded a satisfactory result for the period and the division is considering expanding further the operation to cope with the increasing market demand in the area.

Construction Materials Business in the Mainland

The division’s alliance with strategic partners on various joint ventures in the Mainland for the manufacture and sale of ground granulated blastfurnace slag (GGBS) has proven to be very successful. All the slag joint ventures have provided a satisfactory profit contribution to the division during the period. Further expansions on the production capacity of these joint ventures are in progress and it is envisaged that our division would become one of the major slag producers across the country.

The performance of the division’s cement joint venture in Kunming has continued to provide good profit contribution to the division. The local market demand for quality construction materials remains high. Our joint venture with Kunming Steel Group will enable us to be well positioned to capitalise on the growing market in the western region of the Mainland in the near future.

Liquidity and Financial Resources

The financial position of the Group has remained strong during the period. The shareholders’ funds as at 30th June 2006 was HK\$14,231 million, a decrease of approximately 5% over the balance as at 31st December 2005 of HK\$14,932 million while the Group’s total assets employed increased to HK\$27,342 million as compared to HK\$26,388 million as at 31st December 2005.

The Group continues to maintain a strong cash position. As at 30th June 2006, total cash and bank balances were HK\$5,139 million as compared to HK\$5,068 million as at 31st December 2005.

As at 30th June 2006, the Group’s total indebtedness was HK\$7,596 million as compared to HK\$7,587 million as at 31st December 2005. The total indebtedness of the Group mainly comprises bank loans, fixed rate notes, guaranteed notes and other obligations which are largely denominated in Hong Kong Dollar and United States Dollar. The Group’s borrowings are closely monitored to ensure a smooth repayment schedule to maturity.

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

Gearing Ratio

The gearing ratio, defined as the ratio of total loans outstanding less cash balances to total assets (excludes cash balances), was maintained at a satisfactory level of 11% as at 30th June 2006 as compared to 12% as at 31st December 2005.

Treasury Policy

The Group continues to adopt a conservative treasury policy with all bank deposits in either Hong Kong Dollar, United States Dollar or in the local currencies of the operating subsidiaries, keeping a minimum exposure to foreign exchange risks. All of the Group's borrowings are in either Hong Kong Dollar, United States Dollar or Renminbi. Forward foreign exchange contracts are utilised when suitable opportunities arise and when considered appropriate, to hedge against foreign exchange exposure. The Group has engaged in the use of cross currency swaps to match the currency of the Group's liabilities with that of the Group's income, which are considered necessary for the Group's treasury management activities.

Charges on Group Assets

Leasehold land with net book values of HK\$219 million (31st December 2005: HK\$221 million) and bank deposits of HK\$264 million (31st December 2005: HK\$259 million) have been pledged to secure banking facilities.

Contingent Liabilities

The Company has executed guarantees in favour of banks in respect of facilities granted to subsidiaries amounting to HK\$214 million (31st December 2005: HK\$262 million), of which HK\$162 million (31st December 2005: HK\$124 million) have been utilised.

Employees and Remuneration Policy

As at 30th June 2006, the Group, excluding associated companies and jointly controlled entities, employed around 8,000 employees in Hong Kong, Macau and Mainland China. Employee costs, excluding Directors' emoluments, amounted to HK\$284 million.

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

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the six months ended 30th June 2006. Neither the Company nor any of its subsidiaries have purchased or sold any of the Company's shares during the six months ended 30th June 2006.

AUDIT COMMITTEE

The Group's interim results for the six months ended 30th June 2006 have been reviewed by the Audit Committee of the Company and by the Company's Auditors, PricewaterhouseCoopers, in accordance with SAS700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. The Auditor's independent review report will be included in the Interim Report 2006 to shareholders.

CORPORATE GOVERNANCE

Throughout the six months ended 30th June 2006, the Company has met the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Exchange") except

for code provision A.4.2. The Board considers that the spirit of code provision A.4.2 has been upheld, given that the other Directors do retire by rotation every three years as a matter of actual practice and the Group is best served by not requiring the Chairman and the Managing Director to retire by rotation as their continuity in office is of considerable benefit to and their leadership, vision and profound knowledge in the widespread geographical business of the Group is an asset of the Company. The Remuneration Committee of the Company with appropriate composition and terms of reference was established on 27th January 2006.

PUBLICATION OF INTERIM REPORT ON THE EXCHANGE'S WEBSITE AND THE COMPANY'S WEBSITE

The Interim Report 2006 of the Company containing all information required by the Listing Rules will be published on the Exchange's website and the Company's website in due course.

DIRECTORS

As at the date of this announcement, the executive directors are Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung, Mr. Chan Kai Nang, Mr. Joseph Chee Ying Keung, Mr. William Lo Chi Chung and Ms. Paddy Tang Lui Wai Yu; the non-executive director is Mr. Moses Cheng Mo Chi; and the independent non-executive directors are Dr. Charles Cheung Wai Bun, Mr. James Ross Ancell and Dr. William Yip Shue Lam.

By Order of the Board
Kitty Chan Lai Kit
Company Secretary

Hong Kong, 13th September 2006

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*Please also refer to the published version of this announcement in **South China Morning Post**.*