



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 ANNUAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2006

ANNUAL RESULTS

The Directors of Galaxy Entertainment Group Limited (the “Company”) announce the audited results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31st December 2006 as follows:

The turnover of the Group for the year ended 31st December 2006 was HK\$4,669 million, comparing to a turnover of HK\$1,292 million for the year ended 31st December 2005.

The loss attributable to shareholders for the year ended 31st December 2006 amounted to HK\$1,532 million, comparing to a profit of HK\$2,395 million for the year ended 31st December 2005.

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 a major business of the Group and this division contributed a turnover of HK\$3,389 million to the Group for the year ended 31st December 2006. The loss attributable to shareholders for the year ended 31st December 2006 included the amortisation of gaming licence of HK\$998 million which arose from the acquisition of Galaxy in July 2005.

FINAL DIVIDEND

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

CONSOLIDATED PROFIT AND LOSS STATEMENT
For The Year Ended 31st December 2006

	Note	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Turnover	4	4,669,495	1,291,927
Cost of sales		<u>(4,255,222)</u>	<u>(1,181,342)</u>
Gross profit		414,273	110,585
Excess of fair value of net assets acquired over cost of acquisition of subsidiaries		–	3,039,019
Other income		262,325	110,010
Administrative expenses		(683,422)	(196,662)
Other operating expenses		<u>(1,025,623)</u>	<u>(471,128)</u>
Operating (loss)/profit	5	(1,032,447)	2,591,824
Finance costs		(522,226)	(118,157)
Share of profits less losses of Jointly controlled entities		29,623	(77,975)
Associated companies		<u>(612)</u>	<u>2,696</u>
(Loss)/profit before taxation		(1,525,662)	2,398,388
Taxation	6	<u>(5,848)</u>	<u>(1,683)</u>
(Loss)/profit for the year		<u>(1,531,510)</u>	<u>2,396,705</u>
Attributable to:			
Shareholders		(1,531,546)	2,395,269
Minority interests		<u>36</u>	<u>1,436</u>
		<u>(1,531,510)</u>	<u>2,396,705</u>
		<i>HK cents</i>	<i>HK cents</i>
(Loss)/earnings per share	7		
Basic		(46.5)	110.7
Diluted		<u>(46.5)</u>	<u>109.4</u>

CONSOLIDATED BALANCE SHEET

As at 31st December 2006

	Note	2006 HK\$'000	2005 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		3,882,504	1,187,663
Investment properties		62,500	63,000
Leasehold land and land use rights		1,621,917	1,638,620
Intangible assets		15,520,486	16,493,230
Jointly controlled entities		386,520	279,432
Associated companies		730	21,346
Other non-current assets		951,697	595,120
		<u>22,426,354</u>	<u>20,278,411</u>
Current assets			
Inventories		94,522	86,971
Debtors and prepayments	8	863,138	883,791
Taxation recoverable		2,546	1,039
Other investments		39,241	69,495
Cash and bank balances		5,783,197	5,068,214
		<u>6,782,644</u>	<u>6,109,510</u>
Total assets		<u>29,208,998</u>	<u>26,387,921</u>
EQUITY			
Share capital		329,612	329,058
Reserves		13,303,187	14,603,396
Shareholders' funds		<u>13,632,799</u>	<u>14,932,454</u>
Minority interests		490,700	491,910
Total equity		<u>14,123,499</u>	<u>15,424,364</u>
LIABILITIES			
Non-current liabilities			
Borrowings		8,439,965	4,643,355
Deferred taxation liabilities		1,778,588	1,778,531
Derivative financial instruments		573,109	–
Provisions		120,151	144,360
		<u>10,911,813</u>	<u>6,566,246</u>
Current liabilities			
Creditors and accruals	9	3,633,845	1,452,047
Current portion of borrowings		532,888	2,943,806
Taxation payable		6,953	1,458
		<u>4,173,686</u>	<u>4,397,311</u>
Total liabilities		<u>15,085,499</u>	<u>10,963,557</u>
Total equity and liabilities		<u>29,208,998</u>	<u>26,387,921</u>

NOTES TO THE FINANCIAL STATEMENTS

1. 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.

2. 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 changes to the accounting policies of the Group and their effects are set out below.

For the year ended 31st December 2006, HK(IFRIC)-Int 4 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.

3. Segment Information

The Group is principally engaged in the operation in casino games of chance or games of other forms, provision of hospitality and related services 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.

3. Segment Information (Cont'd)

(a) Business segments

	Gaming and entertainment <i>HK\$'000</i>	Construction materials <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31st December 2006				
Turnover	<u>3,388,767</u>	<u>1,280,728</u>	<u>-</u>	<u>4,669,495</u>
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)	-	<u>(612)</u>
Loss before taxation				(1,525,662)
Taxation				<u>(5,848)</u>
Loss for the year				<u>(1,531,510)</u>
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	<u>-</u>	<u>(784)</u>	<u>-</u>	<u>(784)</u>

- (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.

3. Segment Information (Cont'd)

(a) Business segments (Cont'd)

	Gaming and entertainment <i>HK\$'000</i>	Construction materials <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31st December 2005				
Turnover	<u>66,213</u>	<u>1,225,714</u>	<u>-</u>	<u>1,291,927</u>
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	-	<u>2,696</u>
Profit before taxation				2,398,388
Taxation				<u>(1,683)</u>
Profit for the year				<u>2,396,705</u>
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	<u>-</u>	<u>-</u>	<u>(1,505)</u>	<u>(1,505)</u>

- (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.

3. Segment Information (Cont'd)

(a) Business segments (Cont'd)

	Gaming and entertainment <i>HK\$'000</i>	Construction materials <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
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				<u>29,208,998</u>
Segment liabilities	2,907,093	539,522	11,638,884	<u>15,085,499</u>
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				<u>26,387,921</u>
Segment liabilities	862,281	570,923	9,530,353	<u>10,963,557</u>

(b) Geographical segments

	Turnover <i>HK\$'000</i>	Capital expenditure <i>HK\$'000</i>	Total assets <i>HK\$'000</i>
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
	<u>4,669,495</u>	<u>2,848,730</u>	<u>29,208,998</u>
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
	<u>1,291,927</u>	<u>19,150,236</u>	<u>26,387,921</u>

4. Turnover

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

- (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.

4. Turnover (Cont'd)

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

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net gaming wins	2,732,614	1,570,687
Tips and other income	22,820	12,207
Interest income	18,085	5,510
	<hr/> 2,773,519	<hr/> 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)
	<hr/> (2,544,997)	<hr/> (1,381,378)
Contributions from gaming operations	228,522	207,026
Net entitlements of the Service Providers	(61,465)	(140,813)
	<hr/> 167,057	<hr/> 66,213
Contributions attributable to the Group	<hr/> 167,057	<hr/> 66,213

5. Operating (loss)/profit

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Operating (loss)/profit is stated after crediting:		
Rental income	9,286	13,721
Interest income		
Loans to jointly controlled entities	2,073	2,532
Loan to a related company	3,371	-
Bank deposits	156,578	20,257
Deferred receivable	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 listed investments	3,883	6,522
	=====	=====
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	12,938	6,385
Cost of inventories sold	1,106,659	1,062,157
	=====	=====

6. Taxation

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current taxation		
Hong Kong profits tax	708	1,049
Mainland China income tax	1,932	634
Macau Complementary tax	4,029	-
Deferred taxation	(821)	-
	<u>5,848</u>	<u>1,683</u>

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.

Share of taxation of associated companies and jointly controlled entities for the year ended 31st December 2006 are nil (2005: HK\$721,000) and HK\$2,351,000 (2005: HK\$645,000) respectively and are included in the profit and loss statement as share of profits less losses of associated companies and jointly controlled entities.

7. (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.

8. Debtors and Prepayments

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade debtors, net of provision	504,390	497,406
Other debtors, net of provision	68,193	100,425
Amounts due from jointly controlled entities	174,053	190,266
Amount due from an associated company	183	-
Prepayments	72,620	88,331
Current portion of finance lease receivable	43,699	7,363
	863,138	883,791

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

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
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

9. Creditors and Accruals

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade creditors	975,230	393,049
Other creditors	668,863	379,396
Chips issued	1,065,413	345,924
Amount due to a jointly controlled entity	294	14,397
Loans from minority interests	76,088	94,288
Accrued operating expenses	843,663	219,671
Deposits received	4,294	5,322
	3,633,845	1,452,047

9. Creditors and Accruals (Cont'd)

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

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
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

MANAGEMENT DISCUSSION AND ANALYSIS

2006 was a year of milestones for the Galaxy Entertainment Group. We successfully opened our first flagship hotel and entertainment complex in October 2006, "StarWorld". In-addition we opened three more City Club casinos earlier in the year – Rio Casino, President Casino, and Grand Waldo Casino. Now with five casinos in operation, the Group has firmly established itself as a major player within the Macau gaming market.

REVIEW OF OPERATIONS

Turnover and profit attributable to shareholders for the year ended 31st December 2006 was HK\$4,669 million and a loss of HK\$1,532 million respectively, as compared to a turnover of HK\$1,292 million and a profit of HK\$2,395 million for the year ended 31st December 2005. The Group's turnover was significantly higher than that of last year reflecting the significant expansion in its Gaming and Entertainment division, with the opening of four more casinos in Macau during the year, including the Group's flagship, StarWorld. With the opening of its VIP rooms at the end of November, StarWorld was only opened for one full month of operation during the financial year.

The Group's loss for the year was reported after:

- Depreciation and amortisation charges of HK\$1.19 billion, including the HK\$998 million amortisation of the intangible asset arising from the acquisition of the Macau operation in July 2005;
- HK\$522 million in finance charges;
- Launch and pre-opening expenses associated with opening the four casinos and hotel during the year of HK\$268 million, including staff costs, training costs, marketing and branding.

It should be noted that the profit attributed to shareholders for the 2005 year included a gain of HK\$3,039 million arising from the acquisition of the Macau operation in July 2005.

The 2007 year will be the first full year of operation of the StarWorld Hotel and Casino and all of the City Club casinos and will be a more indicative year upon which to assess the financial success of the Group's Gaming and Entertainment division.

For the first three months of the 2007 financial year, the Group captured over HK\$3.7 billion of Macau gaming revenue, with over HK\$100 billion in VIP rolling turnover. Based on this, Galaxy's market share has now increased to 22% of the total Macau market as reported.

In the fourth quarter of 2006 the Macau gaming market grew at 44% year on year versus 2005, VIP win grew at 65% year on year, with the Mass market at a more modest growth of 15%. This confirms Galaxy's strategy of having a strong focus on the VIP gaming business.

The StarWorld property was developed by Galaxy at a cost of approximately HK\$3 billion, including the acquisition of the land. StarWorld's earnings potential is realised in 2007 and future years. The current market value of this property is significantly greater than its development cost as reflected in the Group's balance sheet. Galaxy is confident that its return on capital for its investment in StarWorld (EBITDA return on development cost) will exceed expectations. This is also true for Galaxy's City Club operations.

Furthermore, the Group's balance sheet does not reflect the current value of one of its most valuable assets, the significant land holding on the Cotai strip – being the site of its Mega Resort development.

Set out below is the segmental analysis of the Group's operating result for the year ended 31st December 2006.

EBITDA EXCLUDING NON-RECURRING ITEMS

	Gaming and entertainment <i>HK\$'000</i>	Construction materials <i>HK\$'000</i>	Corporate <i>HK\$'000</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
<hr/>					
Company and subsidiaries:					
Operating profit/(loss)	(1,187,893)	52,512	102,934	(1,032,447)	2,591,824
Jointly controlled entities and associated companies:					
Share of profits less losses before tax	(2,803)	34,165	-	31,362	(73,913)
Depreciation and amortisation	1,067,757	121,188	1,194	1,190,139	536,068
Non-recurring items	267,868	-	(20,000)	247,868	(2,905,203)
<hr/>					
EBITDA excluding non-recurring items	144,929	207,865	84,128	436,922	148,776
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GAMING AND ENTERTAINMENT DIVISION

Overview

The Macau gaming market continued to record another year of double digit growth. Macau's net gaming revenues increased by over 20% to HK\$53 billion in 2006. Macau is now the world's largest gaming market and continues to experience one of the world's fastest growth rates in gaming revenues and tourist arrivals.

During 2006, Galaxy's gaming tables increased from 63 to over 500 representing approximately 20% of the number of tables in Macau, while Galaxy's slot machines increased from 75 to over 800, representing nearly 15% of slot machines in Macau. Galaxy's casinos generated net gaming revenues of HK\$7.3 billion for the year (of which HK\$3.4 billion is recognised in the financial statements due to the different accounting treatment of the arrangements with the City Club casinos).

Galaxy's market share of Macau net gaming revenues increased from 9% in the first half of 2006 to 17% in the second half year, following the opening of StarWorld and the three new City Club casinos. For the month of December 2006, Galaxy generated net gaming revenues of over HK\$1.1 billion representing a 19% market share.

In 2006, the Gaming and Entertainment division reported an operating loss of HK\$1,188 million.

In considering this result, it should be noted that this is reported after:

- Depreciation and amortisation charges of HK\$1,068 million, including the amortisation of the gaming licence of HK\$998 million;
- Non-recurring items of HK\$268 million which include the pre-opening expenses related to the opening of StarWorld and the three additional City Club casinos, including staff costs, training, launch, marketing and branding expenses.

As noted above, EBITDA of the Gaming and Entertainment division included only one full month of operation of StarWorld's VIP gaming tables (commenced operation on 26th November 2006).

2007 will be the first full year of operation for StarWorld and all of the City Club casinos and will be a more indicative year upon which to assess the financial performance of Galaxy's Gaming and Entertainment division.

As at 31st December 2006, the Group has HK\$6 billion in cash (including HK\$259 million restricted bank deposits classified as other non-current assets), which together with the cash flows from StarWorld, the City Club casinos and Galaxy's other operations, provides Galaxy with the necessary financial resources to develop and commence operations of the first phase of its Cotai Mega Resort by the end of 2008.

StarWorld

StarWorld, Galaxy's first flagship entertainment complex, at a cost of approximately HK\$3.0 billion, opened with its mass gaming operations on 19th October 2006. StarWorld's acclaimed VIP rooms began a phased opening on 26th November 2006. StarWorld has been specifically designed and themed to appeal to the tastes and preferences of the expanding gaming market. StarWorld's spectacular external lighting has changed the Macau skyline forever and will 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 in the heart of the "Strip" of the Macau gaming hub, together with Grand Lisboa, Wynn, and MGM. With StarWorld's unique U-shaped hotel configuration, all 500 hotel rooms and suites have outstanding panoramic water views.

In March 2007, StarWorld completed and opened its VIP high-roller “Jinmen Room” and increased its VIP tables. Once being fully operational, the StarWorld complex will encompass 16,500m² of gaming space, with over 250 gaming tables and 500 slot machines, together with 500 hotel rooms, suites and Presidential suites to cater for our VIPs. As a gourmet paradise, StarWorld offers an outstanding buffet, “Temptations”, exquisite Chinese cuisine at the award winning Jade Garden and Laurel restaurants, and our soon to be opened Japanese and Western fine dining restaurants. To cater for the increase in demand for conference and banquet facilities, our Grand Ballroom will be opened later this year. We are confident that the StarWorld offering of world-class service, outstanding facilities and our understanding of our valued customers’ preferences will underpin our success.

Cotai Mega Resort

The development of Galaxy’s luxurious Cotai Mega Resort is well advanced with the initial phase of this development scheduled to open in 2008. This phase includes over 25,000m² of main gaming floor, which can accommodate up to 600 gaming tables and 1,000 slot machines and a 27 floor hotel tower with 1,500 hotel rooms and suites. Additional resort facilities include: spa, sauna, leisure facilities, an Asian paradise of gourmet food with over 20 restaurants, a range of selected specialty retail and extensive water entertainment and experience features.

Going forward, Galaxy’s Cotai development will be developed to include six to eight various star-rated hotels and resorts with up to 12,000 rooms, 1,500 gaming tables, 3,000 slot machines, extensive high-end retail and multiple convention, function and meeting facilities.

Galaxy’s Cotai development site is 4.7 million 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. As previously noted the current value of this most valuable asset has not yet been reflected on Galaxy’s balance sheet.

City Club Casinos

Galaxy’s City Club casinos experienced significant growth during 2006. During this year three additional city club casinos were opened – Rio Casino in late February, President Casino in late April, and Grand Waldo Casino in May.

The operations of the City Club casinos have continued to improve during 2006. The three new City Club casinos, combined with Galaxy’s original City Club casino, Waldo Casino, have helped Galaxy to secure a strong foothold in the Macau gaming market. The City Club casinos now operate over 280 gaming tables and 475 slot machines in Macau.

Bond Issue

As noted in the 2005 annual report, Galaxy successfully raised US\$600 million in 2005 through a bond offering. These bonds have been well received by the market, trading on the Singapore stock exchange, and now trade at a premium to their issue price.

Convertible Note Issue

In December 2006, after being approached by a group of US investment funds the Group issued US\$240 million of zero coupon five year convertible notes. These funds, together with the proceeds of the Bond Issue, ensure that Galaxy has the necessary financial capacity to expand and enhance the competitiveness of the Galaxy Mega Resort.

CONSTRUCTION MATERIALS DIVISION

The Construction Materials division recorded a steady growth over last year both in terms of turnover and profit contribution. The division's continuous focus on cost savings over the past few years has provided a very solid base in maintaining a competitive edge over its competitors. The division has been able to ride on the challenges brought about by softening market demand in Hong Kong and intensifying market competition on the Mainland.

Hong Kong and Macau

The division continues to ensure it maintains a cost effective operation and is highly competitive within the industry. This has enabled the operation in Hong Kong to maintain a good profit contribution amid reducing market demand. To further strengthen our market position and to broaden the earnings base, the division acquired 80% of Tarmac Asphalt Hong Kong Limited in August 2006. With this acquisition, in addition to broadening the division's earnings base, the division has enjoyed the synergistic cost savings resulting from combining the operations into one business entity. In October 2006, the division secured a rehabilitation contract with Hong Kong SAR Government at Lam Tei, New Territories through an entity in which the Group has a 36.5% interest. This contract will provide the division with long term supply of aggregates and operation base for further extending market coverage in Hong Kong.

Our construction materials operation in Macau continued to record encouraging growth in 2006 with increased sales volume and higher profit contribution. The production facilities have been further expanded during the year to cope with the increasing market demand.

Mainland

The market has remained highly competitive resulting in falling unit selling prices and narrowing gross margin. The division has consolidated its operations to achieve synergistic cost savings in order to maintain our competitiveness in the market. In respect of the joint ventures with leading steel manufacturers for the manufacture and sale of granulated blastfurnance slag (GGBS), all these joint ventures have made good profit contribution to the division. Further expansion in production facilities of these joint ventures will be carried out to cope with the increasing demand of GGBS in the market.

The division's investment in cement joint ventures in Yunnan has progressed as planned. Apart from the cement operation in Kunming, the division has plans to invest in other areas in Yunnan to capitalise on the increasing demand brought about by Central Government's policy of developing the Western Region. In November 2006, the Group together with Kungang, commenced construction work on a new cement production facility in Baoshan, Yunnan. The plant is expected to commence production in 2008.

The Kunming cement operation has begun making a profit contribution to the division and the second phase production facilities construction work has been completed. The plant is presently under testing stage and is expected to commence production in the near future. The division will continue to look for valuable investment opportunities in Yunnan and it is envisaged that all these investments will provide a solid and steady profit growth to the division in the coming future.

LIQUIDITY AND FINANCIAL RESOURCES

The financial position of the Group has remained strong during the year. The shareholders' funds as at 31st December 2006 was HK\$13,633 million, a decrease of approximately 9% over that as at 31st December 2005 of HK\$14,932 million while the Group's total assets employed increased to HK\$29,209 million as compared to HK\$26,388 million as at 31st December 2005.

The Group continues to maintain a strong cash position. As at 31st December 2006, total cash and bank balances were HK\$5,783 million as compared to HK\$5,068 million as at 31st December 2005.

As at 31st December 2006, the Group's total indebtedness was HK\$8,973 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, convertible 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 14% as at 31st December 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 reduce the Group's exposure in foreign currency fluctuations, which are considered necessary for the Group's treasury management activities.

CHARGES ON GROUP ASSETS

Leasehold land with net book values of HK\$217 million (2005: HK\$221 million) and bank deposits of HK\$259 million (2005: HK\$259 million) have been pledged to secure banking facilities.

GUARANTEES

The Company has executed guarantees in favour of banks in respect of facilities granted to subsidiaries amounting to HK\$210 million (2005: HK\$262 million), of which HK\$175 million (2005: HK\$124 million) 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 million (2005: nil). At 31st December 2006, facilities utilised amounted to HK\$9 million (2005: nil).

DEALINGS IN LISTED SECURITIES

The Company has not redeemed any of its shares or listed debt securities during the year ended 31st December 2006. Neither the Company nor any of its subsidiaries have purchased or sold any of the Company's shares or listed debt securities during the year.

REVIEW OF ANNUAL RESULTS

The annual results for the year ended 31st December 2006 have been reviewed by the Audit Committee of the Company. The figures in this preliminary announcement of the results of the Group for the year ended 31st December 2006 have been agreed to the amounts set out in the Group's consolidated financial statements for the year by the Company's auditors, PricewaterhouseCoopers. The work of PricewaterhouseCoopers in this respect, did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants.

CORPORATE GOVERNANCE

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 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 in accordance with the Articles of Association of the Company and the Group is best served by not requiring the Chairman and the Managing Director to retire by rotation since 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.

ANNUAL REPORT 2006

The Annual Report 2006 of the Company containing all the information required by the Listing Rules will be published on the respective websites of the Exchange and the Company in due course.

CHANGES IN THE BOARD

The Board welcomes the appointment of Mr. Anthony Thomas Christopher Carter as a non-executive director of the Company with effect from 18th April 2007, bringing substantial valuable experience to the Group.

Mr. William Lo Chi Chung has resigned as an executive director of the Company with effect from 1st May 2007. The Board would like to express its gratitude to Mr. Lo for his contribution to the Group during his term of appointment.

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 directors are Mr. Moses Cheng Mo Chi and Mr. Anthony Thomas Christopher Carter; and the independent non-executive directors are Dr. Charles Cheung Wai Bun, Mr. James Ross Ansell and Dr. William Yip Shue Lam.

By Order of the Board of
Galaxy Entertainment Group Limited
Kitty Chan Lai Kit
Company Secretary

Hong Kong, 18th April 2007

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