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## **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 30 JUNE 2009**

#### **INTERIM RESULTS**

The Directors of Galaxy Entertainment Group Limited (the “Company”) announce the unaudited results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2009 as follows:

##### **Financial Highlights:**

- Revenue was HK\$5,335 million, representing a decrease of HK\$70 million over the corresponding period last year
- Adjusted EBITDA was HK\$507 million, representing an increase of HK\$242 million over the corresponding period last year
- Profit attributable to shareholders amounted to HK\$1,059 million, representing an increase of HK\$8,491 million over the corresponding period last year
- Material non-cash gains include HK\$819 million gains on buyback of guaranteed notes and convertible notes
- Strong balance sheet, cash and bank balances as at 30 June 2009 of HK\$5,353 million

#### **INTERIM DIVIDEND**

The Board of Directors does not declare any interim dividend for the six months ended 30 June 2009 (2008: nil).

**CONDENSED CONSOLIDATED INCOME STATEMENT (Unaudited)**  
**For The Six Months Ended 30 June 2009**

	Note	2009 <i>HK\$ '000</i>	2008 <i>HK\$ '000</i> <i>(restated, note 1)</i>
Revenue	3	5,334,710	5,405,329
Other income/gains		192,582	143,479
Special gaming tax and other related taxes to the Macau Government		(1,806,507)	(1,752,092)
Commission and allowances to gaming counterparties		(1,861,640)	(1,676,691)
Raw material and consumable used		(295,924)	(452,195)
Amortisation and depreciation		(260,662)	(703,354)
Employee benefit expenses		(543,083)	(763,426)
Other operating expenses		(400,981)	(586,022)
Gain on buyback of guaranteed notes		627,857	-
Gain on buyback of convertible notes		191,267	-
Impairment of gaming licence		-	(8,166,305)
Operating profit/(loss)	5	1,177,619	(8,551,277)
Finance costs		(113,997)	(217,827)
Change in fair value of derivative under the convertible notes		(24,607)	210,366
Share of profits less losses of			
Jointly controlled entities		32,743	28,138
Associated company		54	(660)
Profit/(loss) before taxation		1,071,812	(8,531,260)
Taxation (charge)/credit	6	(6,600)	940,457
Profit/(loss) for the period		1,065,212	(7,590,803)
Attributable to:			
Shareholders		1,059,197	(7,432,119)
Minority interests		6,015	(158,684)
		1,065,212	(7,590,803)
		<i>HK cents</i>	<i>HK cents</i>
Earnings/(loss) per share	7		
Basic		26.9	(188.8)
Diluted		26.9	(188.8)

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)**  
**For The Six Months Ended 30 June 2009**

	<b>2009</b>	2008
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Profit/(loss) for the period	<b>1,065,212</b>	(7,590,803)
Other comprehensive income/(loss)		
Change in fair value of non-current investments, net of tax	<b>1,857</b>	(21,498)
Currency translation differences, net of tax	<b>(1,428)</b>	53,661
Change in fair value of cash flow hedges	<b>(3,065)</b>	12,349
	<u><b>(2,636)</b></u>	<u>44,512</u>
Other comprehensive (loss)/income for the period, net of tax		
	<u><b>(2,636)</b></u>	<u>44,512</u>
Total comprehensive income/(loss) for the period	<u><b>1,062,576</b></u>	<u>(7,546,291)</u>
Total comprehensive income/(loss) attributable to:		
Shareholders	<b>1,056,501</b>	(7,395,346)
Minority interests	<b>6,075</b>	(150,945)
	<u><b>1,062,576</b></u>	<u>(7,546,291)</u>

**CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)****As at 30 June 2009**

		<b>30 June</b>	31 December
		<b>2009</b>	2008
	Note	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		<b>6,707,074</b>	6,480,783
Investment properties		<b>64,500</b>	64,500
Leasehold land and land use rights		<b>1,520,394</b>	1,540,529
Intangible assets		<b>1,445,527</b>	1,488,039
Jointly controlled entities		<b>893,483</b>	832,629
Associated company		<b>784</b>	730
Derivative financial instruments		-	1,522
Other non-current assets		<b>354,927</b>	290,211
		<b>10,986,689</b>	10,698,943
<b>Current assets</b>			
Inventories		<b>93,593</b>	94,022
Debtors and prepayments	8	<b>1,474,162</b>	1,607,505
Amounts due from jointly controlled entities		<b>98,927</b>	191,621
Taxation recoverable		<b>7,115</b>	1,999
Other investments		<b>23,542</b>	15,574
Cash and bank balances		<b>5,353,252</b>	6,042,300
		<b>7,050,591</b>	7,953,021
<b>Total assets</b>		<b>18,037,280</b>	18,651,964
<b>EQUITY</b>			
Share capital		<b>393,817</b>	393,817
Reserves		<b>7,664,412</b>	6,617,467
Shareholders' funds		<b>8,058,229</b>	7,011,284
Minority interests		<b>280,713</b>	262,616
<b>Total equity</b>		<b>8,338,942</b>	7,273,900
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings		<b>4,426,379</b>	6,275,958
Deferred taxation liabilities		<b>272,680</b>	267,224
Derivative financial instruments		<b>35,174</b>	17,805
Provisions		<b>111,707</b>	115,553
		<b>4,845,940</b>	6,676,540
<b>Current liabilities</b>			
Creditors and accruals	9	<b>4,238,531</b>	4,254,533
Amount due to a jointly controlled entity		<b>306</b>	348
Borrowings		<b>607,162</b>	435,903
Taxation payable		<b>6,399</b>	10,740
		<b>4,852,398</b>	4,701,524
<b>Total liabilities</b>		<b>9,698,338</b>	11,378,064
<b>Total equity and liabilities</b>		<b>18,037,280</b>	18,651,964

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 1. Presentation of income statement

The Group continually reviews the content and presentation of the financial statements to ensure compliance with relevant accounting standards and regulations and also to consider their relevance and usefulness to readers. As a result of this ongoing review the Group has changed the format of the consolidated income statement from the “function” format to the “nature of expense” format. Comparative figures have been restated. The Group believes this revised presentation will provide users of the financial statements with a better understanding of the business. The “nature of expense” presentation is also more consistent with that of the Group’s major competitors and is more closely aligned with the way management reviews performance internally.

### 2. Basis of preparation and accounting policies

The interim financial information has been prepared 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 and in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

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 31 December 2008.

In 2009, the Group adopted the following new/revised Hong Kong Financial Reporting Standards (“HKFRS”) which are relevant to its operations.

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 (Amendment) and HKAS 1 (Amendment)	Financial instruments: Presentation of financial statements - Puttable financial instruments and obligations arising on liquidation
HKFRS 2 (Amendment)	Share-based Payments
HKFRS 7 (Amendment)	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC) - Int 9 (Amendment) And HKAS 39 (Amendment)	Reassessment of Embedded Derivatives and Financial Instruments: Recognition and Measurement

#### Improvements to HKFRS published in October 2008

HKAS 1 (Amendment)	Presentation of Financial Statements
HKAS 16 (Amendment)	Property, Plant and Equipment
HKAS 18 (Amendment)	Revenue
HKAS 19 (Amendment)	Employee Benefits
HKAS 23 (Amendment)	Borrowing Costs
HKAS 27 (Amendment)	Consolidated and Separate Financial Statements
HKAS 28 (Amendment)	Investments in Associates
HKAS 31 (Amendment)	Interests in Joint Venture
HKAS 36 (Amendment)	Impairment of Asset
HKAS 38 (Amendment)	Intangible Assets
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement
HKAS 40 (Amendment)	Investment Property

## 2. Basis of preparation and accounting policies (Cont'd)

The Group has assessed the impact of the adoption of these new/revised HKFRS and considered that there was no significant impact on the Group's results and financial position nor any substantial changes in the Group's accounting policies and presentation of the financial statements, except the presentation of the consolidated statement of comprehensive income to present the non-owner consolidated changes in equity as required under HKAS 1 (Revised) and the segment information as required under HKFRS 8.

*Standards, interpretation and amendments to existing standards that are not yet effective*

		Effective for accounting periods beginning on or after
HKAS 27 (Revised)	Consolidated and Separate Financial Statements	1 July 2009
HKFRS 3 (Revised)	Business Combinations	1 July 2009
HKAS 38 (Amendment)	Intangible Assets	1 July 2009
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement - Eligible Hedged Item	1 July 2009
HK(IFRIC)- Int 17	Distributions of non-cash assets to owners	1 July 2009
HK(IFRIC)- Int 18	Transfer of Assets from Customers	1 July 2009
HKFRS 2 (Amendment)	Share-based Payments	1 January 2010
HKFRS 8 (Amendment)	Operating Segments	1 January 2010
HKAS 1 (Amendment)	Presentation of Financial Statements	1 January 2010
HKAS 7 (Amendment)	Statement of Cash Flows	1 January 2010
HKAS 17 (Amendment)	Leases	1 January 2010
HKAS 36 (Amendment)	Impairment of Assets	1 January 2010
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement	1 January 2010

The Group has not early adopted the above standards, interpretations and amendments and is not yet in a position to state whether substantial changes to the Group's accounting policies and presentation of financial statements will be resulted.

### 3. Revenue

Revenue comprises turnover from sale of construction materials, gaming operations and hotel operations.

	<b>2009</b>	2008
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Sales of construction materials	<b>608,204</b>	801,837
Gaming operations		
Net gaming wins	<b>4,516,103</b>	4,365,365
Contributions <i>(Note)</i>	<b>54,156</b>	55,736
Tips received	<b>5,182</b>	10,206
Hotel operations		
Room rental	<b>63,649</b>	74,444
Food and beverages	<b>39,498</b>	37,825
Others	<b>41,014</b>	46,436
Administrative fee income from gaming operations	<b>6,904</b>	13,480
	<b><u>5,334,710</u></b>	<u>5,405,329</u>

*(Note)* 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 other related taxes 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 other related taxes 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.

### 3. Revenue (Cont'd)

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

	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
Net gaming wins	<b>1,529,558</b>	797,595
Other income	<b>4,433</b>	3,164
Interest income	<b>595</b>	2,255
	<b><u>1,534,586</u></b>	<u>803,014</u>
Operating expenses		
Special gaming tax and other related taxes to the Macau Government	<b>(610,783)</b>	(318,721)
Commission and allowances to gaming counterparties	<b>(585,381)</b>	(301,373)
Employee benefit expenses	<b>(130,964)</b>	(114,091)
Other operating expenses	<b>(81,384)</b>	(47,110)
	<b><u>(1,408,512)</u></b>	<u>(781,295)</u>
Contributions from gaming operations	<b>126,074</b>	21,719
(Entitlement of)/contributions from the Service Providers	<b>(71,918)</b>	34,017
Contributions attributable to the Group	<b><u>54,156</u></b>	<u>55,736</u>

### 4. Segment information

The chief operating decision-makers, who are responsible for allocating resources, assessing performance of the operating segment and making strategic decisions, assess the performance of the operating segments based on a measurement of adjusted earnings before interest, tax, depreciation, amortisation and certain items (the "Adjusted EBITDA"). This measurement basis excludes the effects of non-recurring income and expenditure from the operating segments, such as gains on buyback of guaranteed notes and convertible notes, gain on disposal of investments and impairment charge when the impairment is the result of an isolated, non-recurring event. The Adjusted EBITDA also excludes the effects of forfeiture on equity-settled share-based payments, and unrealised gains or losses on financial instruments.

In accordance with the internal financial reporting and operating activities of the Group, the reportable segments are the gaming and entertainment segment and the construction materials segment. Corporate and treasury management represent corporate level activities including central treasury management and administrative function.

The reportable segments derive their revenue from the 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.

There are no sales or trading transaction between the operating segments.

#### 4. Segment information (Cont'd)

	<b>Gaming and entertainment</b> <i>HK\$'000</i>	<b>Construction materials</b> <i>HK\$'000</i>	<b>Corporate and treasury management</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>Six months ended 30 June 2009</b>				
Reportable segment revenue	6,198,196	608,204	-	6,806,400
Adjusted for:				
Certain City Club arrangement set out in note 3				
Revenue not recognised	(1,529,558)	-	-	(1,529,558)
Contributions	54,156	-	-	54,156
Others	3,712	-	-	3,712
Revenue recognised under HKFRS	<u>4,726,506</u>	<u>608,204</u>	<u>-</u>	<u>5,334,710</u>
Adjusted EBITDA	<u>450,925</u>	<u>107,722</u>	<u>(52,027)</u>	506,620
Interest income and gross earnings on finance lease				17,616
Amortisation and depreciation				(260,662)
Finance costs				(113,997)
Change in fair value of derivative under the convertible notes				(24,607)
Taxation charge				(6,600)
Taxation of jointly controlled entities				(3,039)
Adjusted items:				
Gain on buyback of guaranteed notes				627,857
Gain on buyback of convertible notes				191,267
Reversal upon forfeiture of share options				21,225
Pre-opening expenses of Galaxy Macau resort at Cotai				(9,779)
Unrealised gain on listed investments				7,968
Gain on partial disposal of a subsidiary				148,385
Other provision				(37,042)
Profit for the period				<u>1,065,212</u>

#### 4. Segment information (Cont'd)

	<b>Gaming and entertainment</b> <i>HK\$'000</i>	<b>Construction materials</b> <i>HK\$'000</i>	<b>Corporate and treasury management</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>Six months ended 30 June 2008</b>				
Reportable segment revenue	5,856,140	801,837	-	6,657,977
Adjusted for:				
Certain City Club arrangement set out in note 3				
Revenue not recognised	(797,595)	-	-	(797,595)
Contributions	55,736	-	-	55,736
Revenue not recognised under a jointly controlled operation	(519,078)	-	-	(519,078)
Others	<u>8,289</u>	<u>-</u>	<u>-</u>	<u>8,289</u>
Revenue recognised under HKFRS	<u>4,603,492</u>	<u>801,837</u>	<u>-</u>	<u>5,405,329</u>
Adjusted EBITDA	<u>223,670</u>	<u>108,552</u>	<u>(67,396)</u>	264,826
Interest income and gross earnings on finance lease				91,649
Amortisation and depreciation				(703,354)
Finance costs				(217,827)
Change in fair value of derivative under the convertible notes				210,366
Taxation credit				940,457
Taxation of jointly controlled entities				252
Adjusted items:				
Impairment of gaming licence				(8,166,305)
Pre-opening expenses of Galaxy Macau resort at Cotai				(24,377)
Unrealised loss on listed investments				(11,590)
Gain on deemed disposal of jointly controlled entities				15,469
Gain on disposal of a subsidiary				8,247
Write-back of impairment provision of property, plant and equipment				<u>1,384</u>
Loss for the period				<u>(7,590,803)</u>

#### 4. Segment information (Cont'd)

	<b>Gaming and entertainment</b> <i>HK\$'000</i>	<b>Construction materials</b> <i>HK\$'000</i>	<b>Corporate and treasury management</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>As at 30 June 2009</b>				
Total assets	<u>14,771,998</u>	<u>2,671,907</u>	<u>593,375</u>	<u>18,037,280</u>
Total assets include:				
Jointly controlled entities	5,625	887,858	-	893,483
Associated company	-	784	-	784
Total liabilities	<u>7,280,970</u>	<u>898,515</u>	<u>1,518,853</u>	<u>9,698,338</u>
<b>As at 31 December 2008</b>				
Total assets	<u>15,188,978</u>	<u>2,712,342</u>	<u>750,644</u>	<u>18,651,964</u>
Total assets include:				
Jointly controlled entities	4,070	828,559	-	832,629
Associated company	-	730	-	730
Total liabilities	<u>8,556,539</u>	<u>986,774</u>	<u>1,834,751</u>	<u>11,378,064</u>

#### Geographical analysis

	<b>2009</b> <i>HK\$'000</i>	<b>2008</b> <i>HK\$'000</i>
<b>Six months ended 30 June</b>		
<b>Revenue</b>		
Macau	4,748,311	4,740,033
Hong Kong	323,761	370,311
Mainland China	<u>262,638</u>	<u>294,985</u>
	<u>5,334,710</u>	<u>5,405,329</u>
<b>Non-current assets, other than financial instruments and deferred tax assets</b>	<b>As at 30 June 2009</b> <i>HK\$'000</i>	<b>As at 31 December 2008</b> <i>HK\$'000</i>
Macau	9,355,271	9,194,016
Hong Kong	635,439	534,084
Mainland China	<u>995,979</u>	<u>969,321</u>
	<u>10,986,689</u>	<u>10,697,421</u>

## 5. Operating profit/(loss)

	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
Operating profit/(loss) is stated after crediting:		
Rental income	2,942	2,040
Interest income	12,212	85,653
Dividend income from unlisted investments	600	6,117
Dividend income from listed investments	466	1,449
Unrealised gain on listed investments	7,968	-
Gain on partial disposal of a subsidiary	148,385	-
Gain on deemed disposal of jointly controlled entities	-	15,469
Gain on disposal of a subsidiary	-	8,247
	<u>          </u>	<u>          </u>
and after charging:		
Depreciation	171,652	164,135
Amortisation		
Gaming licence	52,732	497,813
Computer software	6,424	3,392
Quarry site improvements	5,481	10,306
Overburden removal costs	4,010	7,201
Quarry site development	227	433
Leasehold land and land use rights	20,136	20,074
Unrealised loss on listed investments	-	11,590
Loss on disposal of property, plant and equipment	957	4,987
	<u>          </u>	<u>          </u>

## 6. Taxation (charge)/credit

	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
Current taxation		
Hong Kong profits tax	(1,682)	(2,978)
Mainland China income tax	(3,001)	(2,605)
Macau complementary tax	-	(574)
Deferred taxation	(1,917)	946,614
	<u>          </u>	<u>          </u>
Taxation (charge)/credit	<u>(6,600)</u>	<u>940,457</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) 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, these rates range from 12% to 25% (2008: 12% to 25%).

## 7. Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to shareholders of HK\$1,059,197,000 (2008: loss of HK\$7,432,119,000) and the weighted average of 3,937,281,082 shares (2008: 3,936,383,043 shares) in issue during the period.

The diluted earnings per share for 2009 was calculated based on the profit attributable to shareholders of HK\$1,059,197,000 and the weighted average of 3,937,281,082 shares in issue plus 5,104,388 potential shares arising from exercise of share options. The diluted loss per share for 2008 equals to the basic loss per share since the exercise of the outstanding share options or conversion of convertible notes would not have a dilutive effect on the loss per share.

## 8. Debtors and prepayments

	<b>30 June 2009</b> <i>HK\$'000</i>	31 December 2008 <i>HK\$'000</i>
Trade debtors, net of provision	471,969	581,092
Other debtors, net of provision	900,343	943,608
Prepayments	55,576	41,099
Amount due from an associated company	10,907	4,719
Current portion of finance lease receivable	35,367	36,987
	<u>1,474,162</u>	<u>1,607,505</u>

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:

	<b>30 June 2009</b> <i>HK\$'000</i>	31 December 2008 <i>HK\$'000</i>
Within one month	127,024	157,768
Two to three months	158,029	180,289
Four to six months	52,375	117,859
Over six months	134,541	125,176
	<u>471,969</u>	<u>581,092</u>

## 9. Creditors and accruals

	<b>30 June 2009</b> <i>HK\$'000</i>	31 December 2008 <i>HK\$'000</i>
Trade creditors	<b>1,046,618</b>	961,502
Other creditors	<b>678,196</b>	605,457
Chips issued	<b>1,517,790</b>	1,299,099
Loans from minority interests	<b>54,274</b>	91,177
Accruals and provision	<b>932,727</b>	1,288,454
Deposits received	<b>8,926</b>	8,844
	<b><u>4,238,531</u></b>	<b><u>4,254,533</u></b>

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

	<b>30 June 2009</b> <i>HK\$'000</i>	31 December 2008 <i>HK\$'000</i>
Within one month	<b>569,525</b>	559,557
Two to three months	<b>93,863</b>	104,163
Four to six months	<b>195,116</b>	40,989
Over six months	<b>188,114</b>	256,793
	<b><u>1,046,618</u></b>	<b><u>961,502</u></b>

## MANAGEMENT DISCUSSION AND ANALYSIS

*(All amounts are expressed in Hong Kong dollars unless otherwise stated)*

### OVERVIEW

The first half of 2009 has seen evidence of a slowly recovering world economy and in particular an improving gaming and entertainment environment in Macau. Whilst it may be too early to state categorically that the recent challenging economic experience is over, we are cautiously optimistic on the outlook for Macau.

Throughout the period, the management team of Galaxy has been focused on continuing to deliver improving financial returns for shareholders, through both growing business volumes in a profitable manner and also implementing a cost efficiency program.

It is with great pleasure that we are able to report a net profit exceeding \$1 billion for the six months period ended 30 June 2009. The reporting of a profit is particularly significant as it confirms that Galaxy has achieved an important milestone in moving from a company that was building a major business to one that is now delivering substantial profits.

We wish to confirm that we are fully committed to continuing to drive growth on a profitable basis and manage our costs in an efficient manner.

Given the improvement in the economy combined with the supportive measures undertaken by both the Central Government and the Macau Government, Galaxy is well positioned to benefit from the continuing economic growth within the Asia Pacific region.

### Group Financial Results

Revenue and net profit attributable to shareholders for the six months ended 30 June 2009 (the current period) were \$5,335 million and \$1,059 million respectively, as compared to revenue of \$5,405 million and a loss of \$7,432 million for the six months ended 30 June 2008, the corresponding period.

The first half of 2009 has been a challenging but rewarding period for the Group. The financial results have been positively impacted by our focus on growing profitable revenue streams and tightly controlling costs. For the six months ended 30 June 2009, the Group's adjusted earnings before interest, taxation, depreciation and amortisation (EBITDA) was \$507 million, compared to \$265 million in year 2008. The Group's EBITDA margin for the half year of 2009 was 9.5%.

Set out below is the segmental analysis of the Group's operating results for the six months ended 30 June 2009.

	<b>Gaming and Entertainment</b>	<b>Construction Materials</b>	<b>Corporate</b>	<b>Total</b>
	<i>\$'M</i>	<i>\$'M</i>	<i>\$'M</i>	<i>\$'M</i>
<i>For six months ended 30 June 2009:</i>				
<b>Revenue</b>	4,727	608	0	<b>5,335</b>
<b>EBITDA (excluding interest income and non-recurring items)</b>	451	108	(52)	<b>507</b>
<i>For six months ended 30 June 2008:</i>				
<b>Revenue</b>	4,603	802	0	<b>5,405</b>
<b>EBITDA (excluding interest income and non-recurring items)</b>	224	108	(67)	<b>265</b>

## **GAMING AND ENTERTAINMENT DIVISION**

### **Overview of Macau Gaming Market**

All business in the world including the Macau gaming market have been impacted by the recent challenging economic environment. However, Macau's gaming revenue has remained resilient and for the six months to 30 June 2009, revenue slightly increased from \$48.6 billion in the second half of 2008, to \$49.9 billion.

Visitor arrivals to Macau were down by 12.5% year-over-year to 10.3 million visitors for the period. In particular, arrivals from mainland China were down year-to-date 11%. This is a result of a combination of the economy, visa restrictions and the impact of swine flu. It is important to note that despite lower visitor arrivals, gaming revenues have been solid.

### **StarWorld Hotel & Casino**

For the six months ended 30 June 2009, StarWorld delivered a solid result with total revenue of \$4,027 million and EBITDA of \$419 million. StarWorld continued to drive exceptionally strong EBITDA with four consecutive quarters of EBITDA growth. EBITDA for the first half of 2009 increased 45% to \$419 million from \$288 million in the first half of 2008.

In the first half of 2009, StarWorld continued to perform well despite the difficult economic environment and increased Rolling Chip volume by 13% from \$96.6 billion in the first half of 2008 to \$109 billion. VIP revenue for the six months of 2009 was \$3,400 million with a win rate of 3.1%.

#### *VIP Segment:*

<b>(HK\$'M)</b>	<b>Q1 2009</b>	<b>Q2 2009</b>	<b>1H 2009</b>
Turnover	\$55,000	\$54,000	\$109,000
Net Win	\$1,700	\$1,700	\$3,400
Win %	3.0%	3.2%	3.1%

The Mass Drop for the first half of 2009 was \$2,900 million, down 12% from \$3,300 million in the corresponding period of 2008. The Win rate was slightly less at 15.2% compared to 15.4% in the corresponding period of the previous year. Mass Gaming revenue was down 14% from \$510 million to \$440 million. In the month of May we commenced renovations of the Mass Gaming floor, substantially upgrading its fixtures and fittings and re-launched the refitted floor on 2 August. Gaming operations were partially disrupted during this period of time.

#### *Mass Gaming:*

<b>(HK\$'M)</b>	<b>Q1 2009</b>	<b>Q2 2009</b>	<b>1H 2009</b>
Drop	\$1,500	\$1,400	\$2,900
Net Win	\$250	\$190	\$440
Win %	16.8%	13.4 %	15.2%

Slot turnover for the first half of 2009 was \$934 million compared to \$1,131 million in the same period of 2008. The win percentage was 6.7% compare to 6.1% in the first half of 2008. The Net Win was \$63 million compared to \$69 million in the first half of 2008. The renovation works also impacted slot operations.

*Electronic Gaming:*

(HK\$'M)	Q1 2009	Q2 2009	1H 2009
Turnover	452	482	934
Net Win	30	33	63
Win %	6.6%	6.8%	6.7%

In first six months of 2009, StarWorld's non-gaming revenue was \$144 million compared to \$159 million in the same period of 2008. StarWorld's Hotel room occupancy was 86% for first half of 2009 as compared to 81% for first half of 2008.

We are particularly please to report that during the period StarWorld Hotel continued to win a number of additional prestigious awards including:

	<p><b>“Best Hotel Brand for Customer Satisfaction - China Hotel Golden Horse Awards”</b>            - 2009 China Hotel Industry Annual Meeting and the 9th China Hotel Forum</p>
	<p><b>“Top 10 Leisure Hotels of China”</b>            - Asia Hotel Forum's 4th China Hotel Starlight Award</p>
	<p><b>“Best Casino Interior Design”</b>            - International Gaming Awards</p>

In the latter part of 2008 we implemented an operational efficiency program focused primarily at StarWorld. Our target was to generate \$200 million in saving per annum and we are pleased to report that we are on track to achieve our stated objective.

**Cotai Development**

In late 2008, we informed the market that due to the challenges facing the global economy, we decided to slow the construction of the Cotai project and to align the opening of the project to a time of improving economic conditions.

We continue with works and are on schedule to complete the facade of the project by calendar year-end 2009.

## Cotai Land Purchase

On 10 September, 2009, we announced that we have accepted the terms of the land grant from the Macau Government for the land at Cotai. The details of the land grant are:

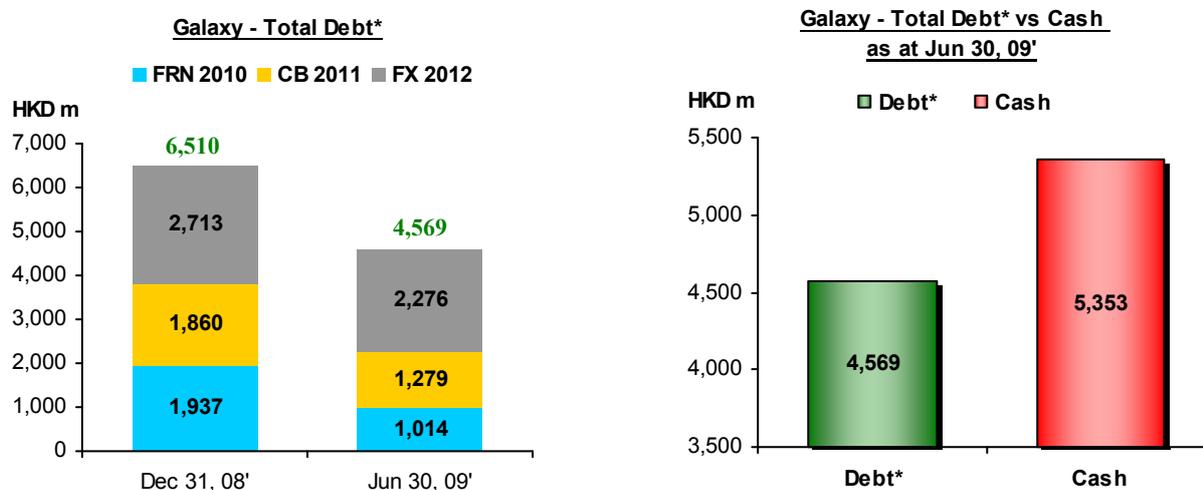
- Total buildable gross floor area of approximately 1.7 million square meters and landscaping area of approximately 290,000 square meters
- Lease term of 25 years; renewable pursuant to applicable laws in Macau
- Land premium of approximately HK\$2.8 billion with an initial payment of HK\$1.1 billion, and the balance paid over 4 years, in 8 equal semi annual installments of approximately HK\$225 million each.

## City Clubs

Following the restructure of management agreements in 2008 and adjusting the business model and scale of the operations, the performance of City Clubs has been substantially improved and for the six months City Clubs contributed \$84 million in EBITDA to the Group.

## Financial / Operating Efficiency Initiatives

Our balance sheet is very liquid with cash on hand of HK\$5.4 billion at 30 June 2009. During the six months, we further strengthened our already strong balance sheet with a debt buyback program retiring a total of \$1,941 million (US\$250 million) of debt at approximately \$0.50 on the dollar. We have generated interest savings of \$429 million (US\$55 million) over the life of the paper and we anticipate reporting a tax free gain of \$819 million (US\$106 million) in 2009.



\* Notes: Total Debt (excludes Bank loans) is stated at nominal value

FRN 2010: Floating Rate Notes due 2010

CB 2011: Zero Coupon Convertible Notes due 2011

FX 2012: 9.875% Fixed Rate Notes due 2012

## **US GAAP Comparisons**

In comparing Galaxy's Gaming and Entertainment Division's results to those of US corporations whose results are prepared under generally accepted accounting principles in the United States ("US GAAP"), it should be noted that gross gaming revenues, presented under US GAAP, are reduced by commissions and discounts paid to players, to arrive at net gaming revenues. An adjusted EBITDA would then be calculated based on these reduced net gaming revenues, resulting in a significantly higher EBITDA margin than that calculated under Hong Kong accounting standards. Galaxy complies with Hong Kong accounting standards. If calculated under US GAAP, StarWorld's EBITDA margin would be approximately 17.1% for the period, as compared to Hong Kong GAAP which would give an EBITDA margin of 10.4% for the period.

## ***CONSTRUCTION MATERIALS DIVISION***

The Construction Materials division contributed \$108 million in EBITDA to the Group for the six months ended June 30, which was a modest 1% decline. Construction related businesses will be among the first group of industries to benefit from the Central Government's stimulus package and associated expenditure on infrastructure investment. We are starting to see the benefits of this stimulus package accruing to the Construction Materials division and we remain positive on the outlook for the division.

## **POST-RESULTS ACTIVITIES & EVENTS**

After our reporting period for the six months ended 30 June 2009, there were a number of important events that positively impact the Macau market. These include the election of Dr. Chui Sai On as the Chief Executive of the Macau Special Administrative Region and his appointment has been confirmed by the Central Government. Dr Chui Sai On has openly expressed his intention to maintain the development of the gaming industry in an orderly manner and to enhance the competitive edge of Macau's gaming industry. We congratulate Dr Chui Sai On, on his appointment as the new Macau Chief Executive and firmly believe that Macau will continue to prosper under his leadership.

Secondly, the Macau Government has confirmed that it will impose a cap on commissions payable to Junkets. We anticipate it will be implemented shortly.

Thirdly, the Chamber of Macau Casino Gaming Concessionaires and Sub-concessionaires was officially formed. The Chamber's objectives are to provide a platform for the gaming operators to discuss issues that are of common interest to its associates and to cooperate with the Macau Government to make contributions to the gaming legislative process and to the implementation of rules and regulations. Galaxy, as one of the founding members of the Chamber, will work with other members and with the Government to further the Macau gaming industry and broaden its economy.

In regard to StarWorld, in late June we opened 16 additional VIP tables and in early July added a further 6 VIP tables. As previously mentioned, on 2 August we re-launched the newly renovated Mass gaming area.

## **GROUP OUTLOOK**

We are cautiously optimistic on the outlook for Macau. Our optimism is a result of a number of significant events that have either recently occurred or are anticipated to occur in the near future.

These include:

- The recent election of Dr. Chui Sai On as the new Chief Executive of Macau
- The pending election of the Macau Legislative Assembly
- The 60<sup>th</sup> anniversary of the founding of the People's Republic of China
- The 10<sup>th</sup> anniversary of Macau's Return to China
- Strong Macau gaming revenue recorded in July of \$9.3 billion
- Record Macau gaming revenue in August of \$10.9 billion
- Rebound in global financial market

There is a possibility that through the combination of these events and celebrations that the Macau gaming market will perform strongly for the balance of 2009 and may equal or surpass last years record revenue.

Additionally, both the Central Government and the Macau Government are actively progressing with major infrastructure initiatives that will support the long term sustainable growth of the Macau economy.

The Group is well positioned for future growth having reported a \$1 billion profit for the first half of 2009. Our balance sheet is extremely strong with \$5.4 billion in cash. StarWorld is poised for further growth having reported four consecutive quarters of EBITDA growth and the construction of Cotai development project continues with the goal of completing the external building works this year.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The shareholders' funds as at 30 June 2009 was \$8,058 million, an increase of approximately 15% over that as at 31 December 2008 of \$7,011 million while the Group's total assets employed decreased to \$18,037 million as compared to \$18,652 million as at 31 December 2008.

The Group continues to maintain a strong cash position. As at 30 June 2009, total cash and bank balances were \$5,353 million as compared to \$6,042 million as at 31 December 2008. The Group's total indebtedness was \$5,034 million as at 30 June 2009 as compared to \$6,712 million as at 31 December 2008. The Group was in net cash as at 30 June 2009.

The total indebtedness of the Group mainly comprises bank loans, 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.

## **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**

Building with net book values of \$16 million (31 December 2008: \$17 million), leasehold land with net book values of \$212 million (31 December 2008: \$216 million) and bank deposits of \$53 million (31 December 2008: \$53 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 \$514 million (31 December 2008: \$639 million), of which \$412 million (31 December 2008: \$479 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 \$9 million (31 December 2008: \$9 million). At 30 June 2009, facilities utilised amounted to \$9 million (31 December 2008: \$9 million).

## **DEALINGS IN LISTED SECURITIES**

During the six months ended 30 June 2009, US\$119.1 million principal amount of the guaranteed senior floating rate notes due 2010 and US\$56.3 million principal amount of the 9.875% guaranteed senior notes due 2012 (both listed on the Singapore Stock Exchange) issued by Galaxy Entertainment Finance Company Limited, a subsidiary of the Company, were purchased for cash at an aggregate amount of US\$90.2 million.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares or listed debt securities during the six months ended 30 June 2009.

## **REVIEW OF INTERIM RESULTS**

The Group's interim results for the six months ended 30 June 2009 have been reviewed by the Audit Committee of the Company and by the Company's auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The report on review of interim financial information by the Auditors will be included in the Interim Report 2009 to shareholders.

## **CORPORATE GOVERNANCE**

Throughout the six months ended 30 June 2009, the Company has complied with the code provisions in the Code on Corporate Governance Practices set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), 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 to retire by rotation as his continuity in office is of considerable benefit to and his leadership, vision and profound knowledge in the widespread geographical business of the Group is an asset of the Company.

## **INTERIM REPORT 2009**

The Interim Report 2009 of the Company containing all the information required by the Listing Rules will be published on the respective websites of Hong Kong Exchanges and Clearing Limited and the Company in due course.

## **CHANGE IN THE BOARD**

Dr. Moses Cheng Mo Chi retired by rotation as a non-executive Director of the Company at the Annual General Meeting held on 22 June 2009. The Board extends its gratitude to Dr. Cheng for his valuable efforts and contributions to the Company during his term of appointment and offers its best wishes to him.

## **DIRECTORS**

As at the date of this announcement, the executive Directors of the Company are Dr. Lui Che Woo (Chairman), Mr. Francis Lui Yiu Tung, Mr. Joseph Chee Ying Keung and Ms. Paddy Tang Lui Wai Yu; the non-executive Directors of the Company are Mr. Anthony Thomas Christopher Carter, Dr. Martin Clarke and Mr. Guido Paolo Gamucci; and the independent non-executive Directors of the Company are Mr. James Ross Ancell, Dr. William Yip Shue Lam and Dr. Patrick Wong Lung Tak.

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

Hong Kong, 18 September 2009

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