



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 31 DECEMBER 2007

ANNUAL RESULTS

The Directors of Galaxy Entertainment Group Limited (the “Company”) announce the results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2007 as follows:

Highlights

- EBITDA increased by 234% to reach HK\$1,461 million
- Revenue increased by 179% to reach HK\$13,035 million
- Strong balance sheet, cash on hand as at 31 December 2007 of HK\$8.3 billion

Milestones in 2007

- Excellent performance of the award-winning StarWorld in its first full year of operation
- Area I of Galaxy mega resort – Mystical Oasis on track for completion by the end of 2008 and opening in mid 2009
- Secured a resourceful strategic shareholder, Permira Funds
- Partnered with Hotel Okura to open its first luxury hotel in Galaxy mega resort

FINAL DIVIDEND

The Board of Directors has resolved not to recommend any final dividend for the year ended 31 December 2007 (2006: nil).

CONSOLIDATED PROFIT AND LOSS STATEMENT
For The Year Ended 31 December 2007

	Note	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Revenue	4	13,035,439	4,669,495
Cost of sales		(11,383,472)	(4,255,222)
Gross profit		1,651,967	414,273
Other income		415,732	262,325
Administrative expenses		(928,304)	(683,422)
Other operating expenses		(1,058,113)	(1,025,623)
Operating profit/(loss)	5	81,282	(1,032,447)
Finance costs		(557,395)	(522,226)
Share of profits less losses of			
Jointly controlled entities		52	29,623
Associated companies		-	(612)
Loss before taxation		(476,061)	(1,525,662)
Taxation	6	(26,172)	(5,848)
Loss for the year		(502,233)	(1,531,510)
Attributable to:			
Shareholders		(466,200)	(1,531,546)
Minority interests		(36,033)	36
		(502,233)	(1,531,510)
		<i>HK cents</i>	<i>HK cents</i>
Loss per share	7		
Basic		(13.8)	(46.5)
Diluted		(13.8)	(46.5)

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Note	2007 HK\$'000	2006 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		4,731,187	3,882,504
Investment properties		62,500	62,500
Leasehold land and land use rights		1,580,777	1,621,917
Intangible assets		14,520,665	15,520,486
Jointly controlled entities		506,193	386,520
Associated companies		730	730
Derivative financial instruments		1,155	47,072
Other non-current assets		599,602	904,625
		<u>22,002,809</u>	<u>22,426,354</u>
Current assets			
Inventories		90,449	94,522
Debtors and prepayments	8	1,039,336	689,085
Amounts due from jointly controlled entities		339,168	174,053
Taxation recoverable		1,299	2,546
Other investments		57,768	39,241
Cash and bank balances		8,230,362	5,783,197
		<u>9,758,382</u>	<u>6,782,644</u>
Total assets		<u>31,761,191</u>	<u>29,208,998</u>
EQUITY			
Share capital		393,564	329,612
Reserves		18,013,088	13,303,187
Shareholders' funds		<u>18,406,652</u>	<u>13,632,799</u>
Minority interests		531,791	490,700
Total equity		<u>18,938,443</u>	<u>14,123,499</u>
LIABILITIES			
Non-current liabilities			
Borrowings		6,010,571	8,439,965
Deferred taxation liabilities		1,781,500	1,778,588
Derivative financial instruments		477,531	573,109
Provisions		135,622	120,151
		<u>8,405,224</u>	<u>10,911,813</u>
Current liabilities			
Creditors and accruals	9	3,901,630	3,633,551
Amount due to a jointly controlled entity		2,177	294
Current portion of borrowings		495,247	532,888
Taxation payable		18,470	6,953
		<u>4,417,524</u>	<u>4,173,686</u>
Total liabilities		<u>12,822,748</u>	<u>15,085,499</u>
Total equity and liabilities		<u>31,761,191</u>	<u>29,208,998</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Preparation

The consolidated 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. Adoption of New / Revised HKFRS

In 2007, the Group has adopted the new standards, amendments and interpretations issued by the HKICPA which are effective for the accounting periods beginning on or after 1 January 2007. However, the adoption of these new standards, amendments and interpretations does not have any significant effect on the accounting policies or results and financial position of the Group, whereas the adoption of HKAS 1 Amendment and HKFRS 7 requires additional disclosures relating to financial instruments and capital management in the consolidated financial statements.

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. Segment assets consist primarily of property, plant and equipment, investment properties, leasehold land and land use rights, intangible assets, other non-current assets, inventories, debtors and prepayments, and mainly exclude investments, derivative financial instruments, taxation recoverable and cash and bank balances. Segment liabilities comprise mainly creditors, accruals and provisions and mainly exclude tax liabilities and borrowings. There are no sales or trading transaction between the business 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 31 December 2007				
Revenue	<u>11,481,227</u>	<u>1,554,212</u>	<u>-</u>	<u>13,035,439</u>
Operating (loss)/profit <i>(Note)</i>	(203,059)	74,898	209,443	81,282
Finance costs				(557,395)
Share of profits less losses of jointly controlled entities	174	(122)	-	<u>52</u>
Loss before taxation				(476,061)
Taxation				<u>(26,172)</u>
Loss for the year				<u><u>(502,233)</u></u>
Capital expenditure	(1,233,343)	(32,413)	(4,184)	(1,269,940)
Depreciation	(248,491)	(77,331)	(2,458)	(328,280)
Amortisation	(1,038,612)	(45,731)	-	(1,084,343)
Impairment of non-current investments	-	-	(4,569)	(4,569)
Impairment of property, plant and equipment	-	(27,457)	-	(27,457)
Impairment of trade debtors	<u>-</u>	<u>(3,016)</u>	<u>-</u>	<u>(3,016)</u>

(Note): Results of the gaming and entertainment division include pre-opening expenses of HK\$22,199,000 incurred for the Galaxy mega resort.

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 31 December 2006				
Revenue	<u>3,388,767</u>	<u>1,280,728</u>	<u>-</u>	<u>4,669,495</u>
Operating (loss)/profit (<i>Note</i>)	(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><u>(1,531,510)</u></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>

(*Note*): Results of the gaming and entertainment division included 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>
As at 31 December 2007				
Segment assets	20,593,125	1,855,623	8,805,520	31,254,268
Jointly controlled entities	(2,595)	508,788	-	506,193
Associated companies	-	730	-	730
Total assets				<u>31,761,191</u>
Segment liabilities	3,153,545	586,592	9,082,611	<u>12,822,748</u>
As at 31 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>

(b) Geographical segments

	Revenue <i>HK\$'000</i>	Capital expenditure <i>HK\$'000</i>	Total assets <i>HK\$'000</i>
Year ended 31 December 2007			
Macau	11,756,085	1,238,195	24,698,271
Hong Kong	686,311	9,592	5,694,789
Mainland China	593,043	22,153	1,368,131
	<u>13,035,439</u>	<u>1,269,940</u>	<u>31,761,191</u>
Year ended 31 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>

4. Revenue

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

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Sales of construction materials	1,554,212	1,280,728
Gaming operations		
Net gaming wins	11,135,284	3,186,893
Contributions (<i>Note</i>)	78,966	167,057
Tips received	33,276	19,692
Hotel operations		
Room rental	139,519	10,739
Food and beverages	37,835	3,924
Others	56,347	462
	<u>13,035,439</u>	<u>4,669,495</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 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 consolidated financial statements.

4. Revenue (Cont'd)

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

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Net gaming wins	1,730,121	2,732,614
Tips received and other income	11,242	22,820
Interest income	9,527	18,085
	<hr/> 1,750,890 <hr/>	<hr/> 2,773,519 <hr/>
Operating expenses		
Special gaming tax and funds to the Macau Government	(698,314)	(1,101,141)
Commission and allowances to promoters	(615,260)	(1,042,232)
Employee benefit expenses	(292,793)	(328,559)
Other operating expenses	(84,770)	(73,065)
	<hr/> (1,691,137) <hr/>	<hr/> (2,544,997) <hr/>
Contributions from gaming operations	59,753	228,522
Contributions from/(net entitlements of) the Service Providers	19,213	(61,465)
	<hr/> 78,966 <hr/>	<hr/> 167,057 <hr/>

5. Operating profit/(loss)

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Operating profit/(loss) is arrived at after crediting:		
Rental income	3,792	9,286
Interest income		
Bank deposits	219,281	156,578
Loans to jointly controlled entities	5,409	2,073
Loan to a related company	-	3,371
Deferred receivable	719	797
Administrative fees from gaming operations	30,089	16,864
Dividend income from unlisted investments	11,973	9,229
Dividend income from listed investments	1,223	349
Realised and unrealised gain on listed investments	68,429	3,883
Gain on partial disposal of a jointly controlled entity	28,863	-
	=====	=====
and after charging:		
Depreciation	328,280	144,493
Amortisation		
Gaming licence	998,360	998,089
Computer software	5,728	1,135
Overburden removal costs	15,057	16,475
Quarry site improvements	20,609	15,050
Quarry site development	3,105	1,959
Leasehold land and land use rights	41,484	12,938
	=====	=====

6. Taxation

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Current taxation		
Hong Kong profits tax	7,660	708
Mainland China income tax	11,965	1,932
Macau Complementary tax	3,635	4,029
Deferred taxation	<u>2,912</u>	<u>(821)</u>
	<u><u>26,172</u></u>	<u><u>5,848</u></u>

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 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.

7. Loss per Share

The calculation of basic loss per share is based on the loss attributable to shareholders of HK\$466,200,000 (2006: loss of HK\$1,531,546,000) and the weighted average of 3,373,065,022 shares (2006: 3,293,135,440 shares) in issue during the year.

The diluted loss per share for 2007 and 2006 equals to the basic loss per share since the exercise of the outstanding share options or conversion of convertible bonds would not have a dilutive effect on the loss per share.

8. Debtors and Prepayments

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Trade debtors, net of provision	616,574	504,390
Other debtors, net of provision	348,254	68,193
Amount due from an associated company	5,166	183
Prepayments	32,948	72,620
Current portion of finance lease receivable	<u>36,394</u>	<u>43,699</u>
	<u><u>1,039,336</u></u>	<u><u>689,085</u></u>

8. Debtors and Prepayments (Cont'd)

Trade debtors mainly arise from the sales 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:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Within one month	160,066	136,508
Two to three months	178,714	148,612
Four to six months	118,994	97,840
Over six months	158,800	121,430
	616,574	504,390

9. Creditors and Accruals

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Trade creditors	1,038,002	975,230
Other creditors	678,030	668,863
Chips issued	1,322,394	1,065,413
Loans from minority interests	89,672	76,088
Accrued operating expenses	765,649	843,663
Deposits received	7,883	4,294
	3,901,630	3,633,551

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

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Within one month	608,429	816,005
Two to three months	86,894	65,820
Four to six months	43,952	55,560
Over six months	298,727	37,845
	1,038,002	975,230

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

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

Year 2007 was a productive year for Galaxy Entertainment Group as we delivered a solid financial performance and continued to successfully execute our corporate strategy of becoming a leading player in Macau, the world's largest gaming market. StarWorld Hotel & Casino led the Gaming and Entertainment Division where it reported healthy financial results for its first full year of operation. The development of the Galaxy Mega Resort, the key driver of the next phase of the Group's growth strategy, has advanced substantially. City Club casinos continued to generate a profitable stream of revenue for the Division in an increasingly more competitive market. Finally, the solid results of the Construction Materials Division helped to propel the Group to new heights.

Permira Funds - Our New Strategic Shareholder

In November 2007, Permira Funds, one of the world's leading private equity groups, invested US\$840 million in exchange for a 20% ownership stake in the Group. We are especially proud of this strategic relationship which reaffirms our belief in the vision for the Group. Our relationship with Permira not only significantly improves our capital position but will enhance our competitiveness by leveraging Permira's proven expertise in the global consumer and gaming sectors.

Group Financial Results

Revenue and profit attributable to shareholders for the year ended 31 December 2007 was \$13,035 million and a loss of \$466 million respectively, as compared to revenue of \$4,669 million and a loss of \$1,532 million for the year ended 31 December 2006. The Group's revenue was significantly higher than that of last year reflecting the significant expansion in the Gaming and Entertainment operations, with the opening of 4 more casinos in Macau during the year of 2006, including the Group's flagship, StarWorld.

The Group's revenue for the first half of 2007 was \$6,332 million and for the second half was \$6,703 million, up 6%. StarWorld's revenue for the first half was \$3,639 million, and for the second half was \$4,372 million, up 20%.

For the year ended 31 December 2007, the Group's earnings before interest expense, tax, depreciation and amortisation (EBITDA) was \$1,461 million, up from \$437 million for the previous year, an increase of 234%.

This strong result in 2007 reflects the continued solid performance of all operating divisions and in particular strong revenue gains and improved efficiencies from StarWorld over the year.

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

- Non-cash depreciation and amortisation charges of \$1,413 million, including the \$998 million amortisation of the intangible asset arising from the acquisition of the Macau operation in 2005.

- \$557 million in finance charges.
- Non-recurring items of \$39 million which mainly include the realised and unrealised gains on investments, impairment losses of assets, gain on partial disposal of a jointly controlled entity and pre-opening expenses related to the construction of the Galaxy mega resort, including staff costs, training, launch, marketing and branding expenses.

Set out below is the segmental analysis of the Group's operating result for the year ended 31 December 2007.

EBITDA (EXCLUDING NON-RECURRING ITEMS AND AFTER INTEREST INCOME ALLOCATION)

	Gaming and Entertainment <i>HK\$'M</i>	Construction Materials <i>HK\$'M</i>	Corporate <i>HK\$'M</i>	2007 <i>HK\$'M</i>	2006 <i>HK\$'M</i>
Revenue	11,481	1,554	-	13,035	4,669
Operating (loss)/profit	(203)	75	209	81	(1,032)
Share of profits of jointly controlled entities	-	6	-	6	31
Depreciation and amortisation	1,287	123	3	1,413	1,190
Non-recurring items	22	7	(68)	(39)	248
EBITDA (excluding non-recurring items)	1,106	211	144	1,461	437
Interest income allocation	117	8	(125)	-	-
EBITDA (excluding non-recurring items and after interest income allocation)	1,223	219	19	1,461	437

GAMING AND ENTERTAINMENT DIVISION

Overview

Macau gaming market continued to grow at an astounding 47% from \$55 billion to \$81 billion in 2007 which surpassed Las Vegas to emerge as the largest gaming market in the world. Every segment of the gaming market grew last year including the VIP market with 52%, mass market with 33% and slot machines with 75% for the year.

Galaxy's casinos generated net gaming revenues of \$14.7 billion for the year (of which \$11.5 billion is recognised in the statutory accounts due to the differing agreements with the City Club casinos' service providers).

StarWorld

2007 was the first full year of operations at StarWorld. During the year, a number of enhancement and additions were made to the property. These included: increasing the number of mass tables on the popular Level One gaming floor by 40% from 85 tables to 122 tables, adding 5 additional exclusive VIP gaming rooms, taking the total number of VIP tables from 32 in January to 69 at year end, increasing the number of slot machines on offer from 335 to 502, opening of the very popular high limit premium play Jinmen Room where we have achieved net win per table per day 100% above the net wins on the mass gaming floors, and the launch of StarWorld Ballroom and banquet areas on level 8.

Competition has intensified throughout 2007 and in particular in the second half of 2007 which experienced the opening of a number of new casinos and the capacity expansion of a number of existing casinos. In 2007, the total number of gaming tables increased by 58% from 2,762 to 4,375 and the number of slot machines increased by 103% from 6,546 to 13,267 machines.

In spite of this significant increased competition, StarWorld continued to produce a 36% return on investment for the shareholders. For the year ended 31 December 2007, StarWorld generated total revenues of \$8,011 million and earned an EBITDA of \$1,115 million, with an EBITDA margin of 14%.

Gaming results for StarWorld's three distinct gaming segments were as follows:

- VIP gaming revenue for the year was \$6,027 million. VIP turnover was \$203.4 billion with a win percentage of 3.0%, which was over the expected range of 2.7% to 2.9%. Win per table per day continues to grow and for the fourth quarter averaged \$329,000 with a win rate of 3.3%.
- Mass table games revenue for the year was \$1,543 million. Table games drop was \$9.9 billion with a win percentage of 15.6%. StarWorld's mass gaming revenues increased during the fourth quarter which together with improving operational efficiencies and a hold percentage of 15% resulted in significant improvement in the contribution from StarWorld's mass gaming operations. Win per table per day continues to improve and averaged over \$33,000 for the fourth quarter of 2007.

- Slot machine revenue for the year was \$190 million. The slot machine win per unit per day for the fourth quarter averaged over \$1,000 with an average number of 476 slot machines and this result was achieved after the number of slot machines was increased by 8% from 464 to 502 machines during the quarter.
- Tips revenue for the year was \$17 million.

VIP gaming accounted for 77.7% of total gaming revenues for the year, with mass (excluding Jinmen) contributing 16.5%, Jinmen 3.4% and slots 2.4%. By the fourth quarter this segmentation was as follows, VIP 81.0%, Mass (excluding Jinmen) 11.8%, Jinmen 4.9% and Slots 2.3%.

StarWorld's non-gaming revenues for the year were \$234 million. The revenue for the first half of the year was \$96 million and this increased to \$138 million in the second half of the year.

Official Macau Government statistics indicate that the level of occupancy for 5 star hotels in Macau was 70.2% in January 2007, increasing to 82.2% by December. While the market's average occupancy rate for the year was 75.3%, StarWorld achieved a significantly higher than market occupancy rate of 83.4% for the full year.

The Ballroom was opened on 29 November 2007 and its first event was StarWorld's inaugural anniversary. Since then, numerous events have been held in the facility throughout December. We expect this venue to provide a significant increase in our banquet revenue in 2008 and will also be utilized as a venue for player events as part of our ongoing player acquisition, retention and loyalty program.

Galaxy Mega Resort

Mystical Oasis

Galaxy mega resort will offer a truly unique and different product to the rapidly growing Macau market. The theme of Galaxy mega resort is a Mystical Oasis; it truly will be a paradise oasis of running water and lush tropical trees. On the roof of the casino will be one of the world's largest lagoon wave pools measuring 300 feet by 350 feet with two foot beach waves.

The golden external glass curtain walls will radiate wealth and when combined with lush oasis of water and trees will be an irresistible attraction to all visitors of Macau.

The casino portion of the resort will be one of the largest casinos in the world and the sheer scale of the casino will certainly leave a lasting impression on all visitors. A number of unique features is being incorporated into the casino podium including a brilliant laser light citadel and a fire and water extravaganza.

We believe that Galaxy mega resort truly will be a Mystical Oasis.

Okura Hotel partnership

We are delighted to confirm that the world famous Japanese hotel group, Okura Hotels has entered into an agreement to manage a 400 room hotel within the second hotel tower. Okura Hotels are the number one rated hotels in both Japan and Korea and interestingly in 2007, visitor arrivals to Macau from Japan and Korea grew 36% and 39%, respectively.

We expect to be in a position to announce an additional hotel partner in the very near future.

Development Update

In response to the robust growth of the Macau gaming market, Galaxy mega resort is reconfigured and expanded to have an additional hotel tower and a bigger gaming podium to meet the market demand. The construction of Galaxy mega resort is proceeding along its critical construction path. We wish to reinforce that Area One of Galaxy Mega Resort is approximately a 5 million square feet development, making this entertainment complex one of the largest developments in all of Macau.

The first hotel tower has been topped out. The gold glass curtain wall is presently being fitted and it is already 60% complete, the fitting out of the 1,500 hotel rooms and suites will commence in July 2008.

The massive Casino podium superstructure has practically completed and the fitting out of the Casino interior will commence in July 2008.

The second tower, which will house two hotels, commenced construction in January 2008 and we are currently adding a floor to the superstructure every 6 days. We expect to top out the superstructure in November 2008. The fitting of the glass curtain wall will commence in August 2008 and to speed the construction process, we will simultaneously fit the glass curtain wall on the lower levels of the tower as we are adding superstructure levels to the top of the tower. Following rapidly behind the glass curtain wall, we will be fitting the services which commence in September 2008.

We will open Hotel Tower One and the Casino in mid 2009 and the second Hotel Tower is scheduled to open late 2009.

Project Funding

Galaxy is in a very comfortable position in regard to the funding of the Galaxy mega resort. The construction, fit out and land costs of Area I of the project, are estimated at approximately \$10 billion. Up to the end of 2007, we have already invested approximately \$2 billion with an additional \$8 billion still to spend. With the cash holdings in the bank as at 31 December 2007 of approximately \$8.3 billion and expected cash to be generated from operation, the construction of Galaxy mega resort is fully funded.

Galaxy Cotai Land

Our Cotai Land Bank continues to represent a critical component of our long term development strategy. A recent land sale transaction confirms the fact that Galaxy has a very valuable asset on hand which is not yet recorded on the balance sheet. In January 2008, one million square feet of Gross Floor Area on Cotai at a price of \$1,667 per square foot was sold in the market. In regard to Galaxy, approximately 5,000,000 square feet out of a total Gross Floor Area of 15,200,000 square feet is presently under construction, leaving 10,200,000 square feet as a land bank.

Galaxy's City Club Casinos

Galaxy's City Club casinos have continued to perform well in an increasingly competitive environment. City Club casinos' focus is predominately on the VIP gaming market and has proven to be the correct strategic decision.

City Club casinos' gaming revenues for the year ended 31 December 2007 were \$7.0 billion (of which \$3.5 billion is recognised in Galaxy's statutory accounts due to the differing agreements with the City Club casinos' service providers). In spite of keen competition from new properties, the City Club casinos captured 9% of the Macau gaming market for the year, with strong VIP gaming revenues and innovative mass gaming products. City Club casinos' EBITDA for the year was \$175 million.

The City Club casinos operate 260 gaming tables and 510 slot machines. We believe that whilst StarWorld is our main profit driver, the City Club casinos will continue to provide a valuable complimentary service to selected VIP clientele.

USGAAP Comparisons

In comparing our Gaming and Entertainment Division's results to those of US corporations whose results are prepared under generally accepted accounting principles in the United States ("USGAAP"), it should be noted that gross gaming revenues, presented under USGAAP, are reduced by commissions and discounts paid to players, to arrive at net gaming revenues. An adjusted EBITDA margin 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 USGAAP, StarWorld's 2007 EBITDA margin would be approximately 23%, as compared to Hong Kong GAAP which would give an EBITDA margin calculation of 14%.

Corporate Costs

During the year, the Group incurred net corporate costs of \$214 million, offset by \$165 million of interest income, reducing EBITDA by \$49 million.

Total interest expense for the year was \$557 million of which \$112 million was non-cash imputed interest expense on the US\$240 million convertible notes issued in December 2006.

CONSTRUCTION MATERIALS DIVISION

2007 was a year of considerable success, with the Group's construction materials business again delivering a strong performance. Sales and profit exceeded last year, the division's revenues were \$1,554 million and it contributed \$219 million to the Group's EBITDA. Once again, the benefit of management's continuing use of its centralised offshore procurement platform to achieve diverse, stable and cost-effective supply of construction materials, together with the strategic investments in the past few years, resulted in higher profit.

The economic backdrop to the year was on balance reasonable, although as always it varied somewhat by region and markets. The benefits of the balanced spread of operations across geographic regions and construction sectors were again demonstrated in these results.

Hong Kong and Macau

In the past year, the demand for construction materials in Hong Kong has gradually improved as more construction works were released to the market. In particular the ready mixed concrete operation in Hong Kong achieved higher sales volume and delivered improved profit contribution for the year. The recent policy address by the Chief Executive indicated that the government will implement some sizeable infrastructural projects such as Shatin to Central Link, new Government Head quarters and the East Kowloon development, over the next few years. In addition the Central Government has now approved the construction of the Hong Kong, Macau, Zhuhai bridge which we understand will on completion, be the longest bridge in the world, linking among Hong Kong, Macau and Mainland China. These infrastructure projects will significantly stimulate the construction materials market; the division is strategically well positioned to capitalise on the increasing market demand and further consolidate its position as a leading supplier of quality construction materials.

The long-term rehabilitation contracts with the Hong Kong SAR Government at Anderson Road Quarry and Lam Tei Quarry continue to provide the division with secured supplies of aggregates in strategically beneficially locations. Completing the integration of the acquired Tarmac asphalt, surfacing, and road marking business during the year, together with continued focus on developing new products, particularly recycled materials, ensures that the division is now a fully integrated construction materials supplier offering our customers a good range of material products and services unrivaled in Hong Kong.

In Macau, the demand for construction materials remains strong and we have further improved our production efficiency and capacity to cope with the increasing market demand. The operation continued to provide good profit contribution to the division during the year.

Mainland

The trading environment posed particular challenges, not least of which was the continuing austerity measures imposed by Central Government to cool the overheated economy in most of the larger cities, which have reduced the level of construction activities in those markets. Competition in the market also intensified which combined with increases in raw material costs applied downward pressure on operating margins. Nevertheless, the division has continued to make progress by an unrelenting focus on cost saving programs and improving operating efficiency, enabling the division to enhance its market competitiveness.

Our joint ventures with leading steel producers for the manufacture and sale of granulated blast-furnace slag (GGBFS) in the Mainland continue to generate good profit contribution for the Group. Further expansion in GGBFS production facilities is in progress and setting up of new joint ventures is being considered to further strengthen and consolidate the Group's position as a leading slag producer in the Mainland.

In respect of the division's cement joint ventures in Yunnan Province, the investments are progressing as planned, with the plant in Baoshan commencing commercial production in January 2008. A third cement plant in Shizong, Qujing, commenced construction during the year and is expected to commence commercial operation in the second half of 2008. Together the combined production facilities in Anning, Baoshan and Shizong will have an installed cement production capacity of five million tonnes per year. With further investments under consideration in other cities, these developments in total underline the division's commitment to become one of the leading cement producers in the growing regional market, and will contribute greatly to the future progress and profitability of the division.

GROUP OUTLOOK FOR 2008

We are highly confident that the Group is well positioned to execute its long term strategy of providing a high quality gaming and resort experience for our valued customers while delivering strong returns to our shareholders. 2007 was a successful year for the Group. We believe that the Macau market will continue to evolve at a rapid pace in 2008 as the market absorbs the impact of recent and future new properties and competition intensifies across all business segments including areas such as VIP gaming. We are prepared to address these challenges and look forward to another rewarding year in 2008 in our core operations as well as developing the Galaxy Mega Resort.

LIQUIDITY AND FINANCIAL RESOURCES

The financial position of the Group has remained strong during the year. The shareholders' funds as at 31 December 2007 was \$18,407 million, an increase of approximately 35% over that as at 31 December 2006 of \$13,633 million while the Group's total assets employed increased to \$31,761 million as compared to \$29,209 million as at 31 December 2006.

The Group continues to maintain a strong cash position. As at 31 December 2007, total cash and bank balances were \$8,230 million as compared to \$5,783 million as at 31 December 2006. The Group's total indebtedness was \$6,506 million as at 31 December 2007 as compared to \$8,973 million as at 31 December 2006. The Group was in net cash as at end of year 2007, as compared to a gearing ratio of 14% as at 31 December 2006.

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

Leasehold land with net book values of \$222 million (2006: \$217 million) and bank deposits of \$50 million (2006: \$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 \$627 million (2006: \$210 million), of which \$307 million (2006: \$175 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 (2006: \$9 million). At 31 December 2007, facilities utilised amounted to \$9 million (2006: \$9 million).

DEALINGS IN LISTED SECURITIES

The Company has not redeemed any of its shares or listed debt securities during the year ended 31 December 2007. 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 31 December 2007 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 31 December 2007 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

Throughout the year ended 31 December 2007, 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 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.

ANNUAL REPORT 2007

The Annual Report 2007 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 18 April 2007, and the appointments of Dr. Martin Clarke and Mr. Guido Paolo Gamucci as non-executive directors of the Company both with effect from 27 November 2007, bringing substantial valuable experience to the Group.

DIRECTORS

As at the date of this announcement, the executive directors of the Company are Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung, Mr. Chan Kai Nang, Mr. Joseph Chee Ying Keung and Ms. Paddy Tang Lui Wai Yu; the non-executive directors of the Company are Dr. Moses Cheng Mo Chi, Mr. Anthony Thomas Christopher Carter, Dr. Martin Clarke and Mr. Guido Paolo Gamucci; and the independent non-executive directors of the Company are Dr. Charles Cheung Wai Bun, Mr. James Ross Ancell and Dr. William Yip Shue Lam.

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

Hong Kong, 18 April 2008

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