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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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

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 2008 as follows:

Financial Highlights:

- Revenue was HK\$10,497 million, representing a decrease of HK\$2,538 million over last year
- EBITDA was HK\$544 million, representing a decrease of HK\$677 million over last year
- Loss attributable to shareholders amounted to HK\$11,390 million, representing an increase of HK\$10,924 million over last year
- Material non-cash expenses include HK\$12,330 million write-down made to the carrying value of the gaming licence, partly offset by the corresponding release of HK\$1,259 million in deferred taxation liability
- Strong balance sheet, cash on hand as at 31 December 2008 of HK\$6,042 million

FINAL DIVIDEND

The Board of Directors has resolved not to recommend any final dividend for the year ended 31 December 2008 (2007: nil).

CONSOLIDATED PROFIT AND LOSS STATEMENT
For The Year Ended 31 December 2008

	Note	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Revenue	3	10,496,657	13,035,439
Cost of sales		(9,447,353)	(11,383,472)
Gross profit		1,049,304	1,651,967
Other income		279,643	415,732
Impairment of gaming licence	4	(12,330,305)	-
Administrative expenses		(1,073,619)	(928,304)
Other operating expenses		(1,114,522)	(1,058,113)
Operating (loss)/profit	5	(13,189,499)	81,282
Finance income/(costs), net		79,290	(557,395)
Share of profits less losses of jointly controlled entities		51,885	52
Loss before taxation		(13,058,324)	(476,061)
Taxation credit/(charge)	6	1,503,093	(26,172)
Loss for the year		(11,555,231)	(502,233)
Attributable to:			
Shareholders		(11,390,368)	(466,200)
Minority interests		(164,863)	(36,033)
		(11,555,231)	(502,233)
		<i>HK cents</i>	<i>HK cents</i>
Loss per share	7		
Basic		(289.3)	(13.8)
Diluted		(289.3)	(13.8)

CONSOLIDATED BALANCE SHEET
As at 31 December 2008

	Note	2008 HK\$'000	2007 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		6,480,783	4,731,187
Investment properties		64,500	62,500
Leasehold land and land use rights		1,540,529	1,580,777
Intangible assets	4	1,488,039	14,520,665
Jointly controlled entities		832,629	506,193
Associated company		730	730
Derivative financial instruments		1,522	1,155
Other non-current assets		290,211	599,602
		<u>10,698,943</u>	<u>22,002,809</u>
Current assets			
Inventories		94,022	90,449
Debtors and prepayments	8	1,607,505	1,039,336
Amounts due from jointly controlled entities		191,621	339,168
Taxation recoverable		1,999	1,299
Other investments		15,574	57,768
Cash and bank balances		6,042,300	8,230,362
		<u>7,953,021</u>	<u>9,758,382</u>
Total assets		<u>18,651,964</u>	<u>31,761,191</u>
EQUITY			
Share capital		393,817	393,564
Reserves		6,617,467	18,013,088
Shareholders' funds		<u>7,011,284</u>	<u>18,406,652</u>
Minority interests		262,616	531,791
Total equity		<u>7,273,900</u>	<u>18,938,443</u>
LIABILITIES			
Non-current liabilities			
Borrowings		6,275,958	6,010,571
Deferred taxation liabilities		267,224	1,781,500
Derivative financial instruments		17,805	477,531
Provisions		115,553	135,622
		<u>6,676,540</u>	<u>8,405,224</u>
Current liabilities			
Creditors and accruals	9	3,979,776	3,901,630
Provision for claims from contractors		274,757	-
Amount due to a jointly controlled entity		348	2,177
Borrowings		435,903	495,247
Taxation payable		10,740	18,470
		<u>4,701,524</u>	<u>4,417,524</u>
Total liabilities		<u>11,378,064</u>	<u>12,822,748</u>
Total equity and liabilities		<u>18,651,964</u>	<u>31,761,191</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

The Group meets its day to day working capital requirements and capital commitments mainly through revenue from its operations, cash at banks as well as credit facilities from banks. The tougher visa restrictions on Mainland China visitors to Macau and the global financial turmoil in late 2008 have brought adverse impact on the macro economic environment. The current economic conditions create uncertainties particularly over the number of tourists visiting Macau, and hence, the number of players in the Group's gaming and entertainment properties. In addition, competition in the Macau gaming market has continued to intensify.

The Group has prepared the projected cash flows for the period up to 30 April 2010. Key assumptions of the cash flow projections include expected revenues generated from the gaming and entertainment and construction materials operations to be at a similar level of 2008, HK\$1.9 billion further capital expenditure and HK\$1.3 billion for repayment of borrowings of which HK\$0.9 billion has been used to early repay some of the guaranteed notes and convertible notes. If there were unexpected adverse changes in general economic conditions which result in a decrease in the projected revenue, the Group has a number of alternative plans to mitigate the negative impact on cash inflow, including rescheduling the development program of the Galaxy Macau resort at Cotai. The Group will enhance the cash inflow from operations by implementing additional cost control measures and bringing in players from other Asian countries. The Group has continued discussions with banks to explore opportunities to expand its credit facilities thereby strengthening its financial resources.

Actual net gaming wins of StarWorld Casino for the first quarter of 2009 is approximately HK\$1.9 billion, increased by approximately 10% as compared with that of the first quarter of 2008. The cash at banks at 31 March 2009 was approximately HK\$5 billion, after early repayment of guaranteed notes of approximately HK\$1.3 billion principal amount in January 2009. The Group considers its liquidity and financial position as a whole is healthy and has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, it continues to adopt the going concern basis in preparing the consolidated financial statements.

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.

In 2008, the Group adopted the following new interpretations which are relevant to its operations.

HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 13	Customer loyalty programmes

The Group has assessed the impact of the adoption of these new interpretations 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.

2. 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.

2. 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 2008				
Revenue	<u>8,893,583</u>	<u>1,603,074</u>	<u>-</u>	<u>10,496,657</u>
Operating (loss)/profit <i>(Note)</i>	(13,247,646)	86,813	(28,666)	(13,189,499)
Finance income, net				79,290
Share of profits less losses of jointly controlled entities	1,192	50,693	-	<u>51,885</u>
Loss before taxation				(13,058,324)
Taxation credit				<u>1,503,093</u>
Loss for the year				<u>(11,555,231)</u>
Capital expenditure	(2,083,837)	(30,148)	(2,579)	(2,116,564)
Depreciation	(290,073)	(58,774)	(3,570)	(352,417)
Amortisation	(749,008)	(42,526)	-	(791,534)
Impairment of gaming licence	(12,330,305)	-	-	(12,330,305)
Impairment of non-current investments	(23,010)	-	(982)	(23,992)
Impairment of trade and other debtors	<u>(37,000)</u>	<u>(6,032)</u>	<u>-</u>	<u>(43,032)</u>

(Note): Results of the gaming and entertainment division include pre-opening expenses of HK\$59,636,000 incurred for the Galaxy Macau resort.

2. 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 2007				
Revenue	11,481,227	1,554,212	-	13,035,439
Operating (loss)/profit <i>(Note)</i>	(203,059)	74,898	209,443	81,282
Finance costs, net				(557,395)
Share of profits less losses of jointly controlled entities	174	(122)	-	52
Loss before taxation				(476,061)
Taxation charge				(26,172)
Loss for the year				(502,233)
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	-	(3,016)	-	(3,016)

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

2. 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 2008				
Segment assets	10,012,016	1,655,971	6,150,618	17,818,605
Jointly controlled entities	4,070	828,559	-	832,629
Associated company	-	730	-	730
				<u>18,651,964</u>
Total assets				<u>18,651,964</u>
Segment liabilities	3,707,576	552,335	7,118,153	11,378,064
				<u>11,378,064</u>
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 company	-	730	-	730
				<u>31,761,191</u>
Total assets				<u>31,761,191</u>
Segment liabilities	3,153,545	586,592	9,082,611	12,822,748
				<u>12,822,748</u>

(b) Geographical segments

	For the year ended 31 December		As at 31 December
	Revenue <i>HK\$'000</i>	Capital expenditure <i>HK\$'000</i>	Total assets <i>HK\$'000</i>
2008			
Macau	9,086,965	2,084,447	15,293,612
Hong Kong	742,103	21,293	1,683,538
Mainland China	667,589	10,824	1,674,814
	<u>10,496,657</u>	<u>2,116,564</u>	<u>18,651,964</u>
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>

3. Revenue

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

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of construction materials	1,603,074	1,554,212
Gaming operations		
Net gaming wins	8,431,001	11,135,284
Contributions (<i>Note</i>)	116,828	78,966
Tips received	16,808	33,276
Hotel operations		
Room rental	153,576	139,519
Food and beverages	88,072	37,835
Others	87,298	56,347
	10,496,657	13,035,439

(*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 consolidated financial statements.

3. Revenue (Cont'd)

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

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net gaming wins	1,856,395	1,730,121
Other income	9,861	11,242
Interest income	5,707	9,527
	<hr/>	<hr/>
	1,871,963	1,750,890
	<hr/>	<hr/>
Operating expenses		
Special gaming tax and other related taxes to the Macau Government	(744,390)	(698,314)
Commission and allowances to gaming counterparties	(700,723)	(615,260)
Employee benefit expenses	(241,756)	(292,793)
Other operating expenses	(168,033)	(84,770)
	<hr/>	<hr/>
	(1,854,902)	(1,691,137)
	<hr/>	<hr/>
Contributions from gaming operations	17,061	59,753
Contributions from the Service Providers	99,767	19,213
	<hr/>	<hr/>
Contributions attributable to the Group	116,828	78,966
	<hr/> <hr/>	<hr/> <hr/>

4. Intangible assets

	Gaming licence <i>HK\$'000</i>	Other intangible assets <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2008			
Net book value amount			
At 1 January 2008	14,472,118	48,547	14,520,665
Additions	-	12,633	12,633
Disposals	-	(473)	(473)
Amortisation	(706,987)	(7,494)	(714,481)
Impairment	(12,330,305)	-	(12,330,305)
	<u>1,434,826</u>	<u>53,213</u>	<u>1,488,039</u>
At 31 December 2008			
Year ended 31 December 2007			
Net book value amount			
At 1 January 2007	15,470,478	50,008	15,520,486
Amortisation	(998,360)	(1,461)	(999,821)
	<u>14,472,118</u>	<u>48,547</u>	<u>14,520,665</u>
At 31 December 2007			

Gaming licence represents the fair value of licence acquired on the acquisition of Galaxy Casino, S.A. in 2005 and has been amortised on a straight line basis over the remaining term of the gaming licence which will expire in June 2022. Taking into account the presently available indicators, the Group performed an impairment assessment on the net assets of the gaming business which is regarded as a cash-generating unit. This assessment indicated an impairment on the gaming licence as at 31 December 2008.

With reference to a valuation carried out by an independent professional valuer, American Appraisal China Limited, the carrying value of the gaming licence is written down by approximately HK\$12.3 billion to the recoverable amount of HK\$1.4 billion at 31 December 2008. The recoverable amount of the gaming licence has been determined based on its fair value less cost to sell which the Group considers to be higher than the value-in-use. It is calculated using the cash flow projections derived from the financial forecasts for the remaining concession tenure in respect of a normal market participant.

Taking into account the corresponding release of approximately HK\$1.3 billion in deferred taxation liability, the net amount of write-down is approximately HK\$11.0 billion.

5. Operating (loss)/profit

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating (loss)/profit is arrived at after crediting:		
Rental income	4,843	3,792
Interest income	145,168	225,409
Administrative fees from gaming operations	23,463	30,089
Dividend income from unlisted investments	11,227	11,973
Dividend income from listed investments	1,811	1,223
Realised and unrealised gain on listed investments	-	68,429
Gain on partial disposal of jointly controlled entities	-	28,863
Gain on deemed disposal of jointly controlled entities	15,697	-
Excess of fair value over consideration upon step up of acquisition in a subsidiary	22,000	-
	<u>=====</u>	<u>=====</u>
and after charging:		
Depreciation	352,417	328,280
Amortisation		
Gaming licence	706,987	998,360
Computer software	7,494	5,728
Overburden removal costs	20,599	15,057
Quarry site improvements	15,057	20,609
Quarry site development	917	3,105
Leasehold land and land use rights	40,480	41,484
Impairment of gaming licence	12,330,305	-
Provision for claims from contractors	274,757	-
Impairment of non-current investments	23,992	4,569
Impairment of trade and other debtors	43,032	3,016
Unrealised loss on listed investments	42,194	-
Cost of inventories sold	1,358,540	1,306,974
	<u>=====</u>	<u>=====</u>

6. Taxation (credit)/charge

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Current taxation		
Hong Kong profits tax	8,786	7,660
Mainland China income tax	2,021	11,965
Macau complementary tax	376	3,635
Deferred taxation	<u>(1,514,276)</u>	<u>2,912</u>
Taxation (credit)/charge	<u><u>(1,503,093)</u></u>	<u><u>26,172</u></u>

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 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 areas 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\$11,390,368,000 (2007: HK\$466,200,000) and the weighted average of 3,937,281,082 shares (2007: 3,373,065,022 shares) in issue during the year.

The diluted loss per share for 2008 and 2007 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

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Trade debtors, net of provision	581,092	616,574
Advances to gaming counterparties	705,000	205,000
Other debtors, net of provision	238,608	143,254
Amount due from an associated company	4,719	5,166
Prepayments	41,099	32,948
Current portion of finance lease receivable	<u>36,987</u>	<u>36,394</u>
	<u><u>1,607,505</u></u>	<u><u>1,039,336</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:

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one month	157,768	160,066
Two to three months	180,289	178,714
Four to six months	117,859	118,994
Over six months	125,176	158,800
	581,092	616,574

9. Creditors and accruals

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade creditors	961,502	1,038,002
Other creditors	605,457	678,030
Chips issued	1,299,099	1,322,394
Loans from minority interests	91,177	89,672
Accrued operating expenses	1,013,697	765,649
Deposits received	8,844	7,883
	3,979,776	3,901,630

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

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one month	559,557	608,429
Two to three months	104,163	86,894
Four to six months	40,989	43,952
Over six months	256,793	298,727
	961,502	1,038,002

MANAGEMENT DISCUSSION AND ANALYSIS

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

OVERVIEW

Numerous companies throughout the world have experienced a challenging 2008, and Galaxy is no exception.

There have been a number of key events that have impacted our shorter term performance. Two of these events are globally related and the others are specific to Macau. These include:

- The overall adverse global economic environment
- The slowing economy of China
- The introduction of visa restrictions for Mainland Chinese to visit Macau
- Significant additional gaming supply entering the Macau market in late 2007 and in 2008
- The introduction of substantial credit into the Macau market in early 2008
- Subsequent need to pay increased commissions to junkets to remain competitive

Whilst these external events could not be foreseen, Galaxy proactively responded and successfully adapted our business operations to the changing business environment. For example, during the course of the year, we have:

- Successfully grown our market share of gaming revenue from 10% to 13%
- Adjusted the business model and scale of operations within City Clubs to bring them back into profitability
- Slowed the development of Cotai so as to be able to align the opening date with an improving economy
- Launched a bond buy-back program that on completion in January 2009 reduced our debt by US\$170 million, strengthened our balance sheet, eliminated US\$40 million in cash interest payments and improved our debt maturity profile
- Well advanced with the implementation of an operating efficiency program that we anticipate will generate approximately \$200 million in annual savings

REVIEW OF OPERATIONS

Group Financial Results

Revenue and loss attributed to shareholders for the twelve months ended 31 December 2008 (the current year) were \$10,497 million and a loss of \$11,390 million respectively, as compared to revenue of \$13,035 million and a loss of \$466 million for the year ended 31 December 2007, the corresponding period. The loss of \$11,390 million was largely due to the non-cash write-down of our intangible gaming licence of approximately \$11 billion in net amount.

The Group's revenue for the first half of 2008 was \$5,392 million and for the second half was \$5,105 million. StarWorld's revenue for the first half was \$3,508 million, and for the second half was \$3,649 million.

For the year ended 31 December 2008, the Group's earnings before interest expense, taxation, depreciation and amortisation (EBITDA) was \$544 million, compared to \$1,221 million in year 2007.

The Group's EBITDA for the first half of 2008 was \$265 million and for the second half was \$279 million. StarWorld's EBITDA for the first half was \$288 million and for the second half was \$290 million.

The Group's EBITDA margin for the year was 5.2%.

2008 has been a challenging year and financial results were primarily impacted by:

- Lower than average VIP win rate at StarWorld (average of 2.6% for the year)
- Increased commissions to junkets
- Increased market competition and a significant increase in the number of gaming tables and slot machines

(HK\$'M)	<u>FYE2007</u>	<u>Q1 2008</u>	<u>Q2 2008</u>	<u>Q3 2008</u>	<u>Q4 2008</u>	<u>FYE2008</u>
StarWorld						
Gaming	7,761	1,753	1,591	1,623	1,852	6,819
Revenue						

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

- A net amount of approximately \$11 billion non-cash write-down of the carrying value of the gaming license
- Non-cash depreciation and amortisation charges of \$1,144 million, including \$707 million amortisation of the intangible asset arising from the acquisition of the Macau operation in 2005
- \$79 million in net finance income, after including a fair value gain of derivative under the convertible notes of \$462 million

Set out below is the segmental analysis of the Group's operating results for the year ended 31 December 2008.

	Gaming and Entertainment	Construction Materials	Corporate	2008	2007
	<i>\$'M</i>	<i>\$'M</i>	<i>\$'M</i>	<i>\$'M</i>	<i>\$'M</i>
Revenue	8,894	1,603	-	10,497	13,035
Operating (loss)/profit excluding interest income	(13,247)	87	(186)	(13,346)	(158)
Share of profits less losses of jointly controlled entities	1	54	-	55	11
Depreciation and amortisation	1,039	101	4	1,144	1,413
Non-recurring items	12,675	(26)	42	12,691	(45)
EBITDA (excluding interest income and non-recurring items)	468	216	(140)	544	1,221

GAMING AND ENTERTAINMENT DIVISION

Overview of Macau Gaming Market

Towards the end of 2007, significant additional supply entered the market, with the opening of new casinos by other gaming operators. From the latter part of 2007 through to the end of 2008, the supply of gaming tables in Macau increased by 41% from 3,102 to peak at 4,375 and ended the year at 4,017 an increase of 29%. The number of slot machines increased by 64% from 8,234 to peak at 13,552 and ended the year at 11,856 with an increase of 44%.

In the early part of 2008 substantial credit was introduced into the VIP segment and subsequently commission payments to VIP Junkets increased thereby lowering the margins to Casinos. We are now seeing evidence that commission rates are being reduced and recently a Macau Gaming Chamber, comprising the six Gaming Concessionaires was established. We are optimistic that a cap on commission payments will be introduced which will increase the profitability of casinos.

Commencing in June 2008 the Central Government introduced visa restrictions for Mainland Chinese to visit Macau. Despite these restrictions still being enforced, gaming revenue has remained very resilient. Overall gaming revenue in 2008 was \$105,605 million which represented a 31% increase over 2007, however gaming revenue in the first half of 2008 was \$56,998 million and in the second half was \$48,607 million, demonstrating a slow down particularly in the VIP segment. Mass revenue held up reasonably well with total mass gaming revenue being up 24% year-on-year. Visitor volumes to Macau grew in 2008 by 12% to 30 million up from 27 million in 2007.

Towards the latter part of 2008, the progressively slowing world economy impacted Macau like most locations around the world.

StarWorld

StarWorld is a world-class Hotel and Casino and over the past year has won numerous prestigious awards. These include:



November 2008	5 Star Diamond Award – American Academy of Hospitality Sciences
October 2008	China's Top Hotels – 《Travel + Leisure》 Magazine
September 2008	China Top 100 Hotels & Top 10 Business Hotels – China Hotel Industry Enterprise Leaders Summit
March 2008	China Top Ten City-Nova Hotels – Asia Hotel Forum's China Hotel Starlight Award
January 2008	Higher Flyer Award – Hong Kong Business Magazine

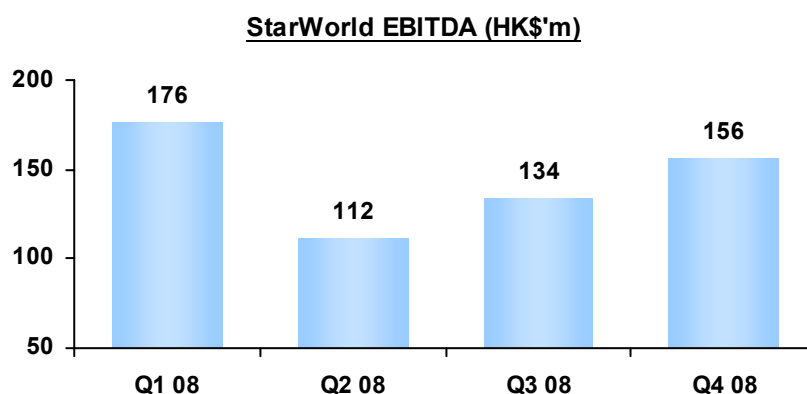
And in 2009, StarWorld continues to win accolades, post our year-end results StarWorld was awarded:

	January 2009	Best Casino Interior Design – International Gaming Awards
	March 2009	Top 10 Leisure Hotels of China – Asia Hotel Forum’s China Hotel Starlight Award

For the year ended December 31, 2008, StarWorld delivered a solid result with total revenue of \$7,157 million and EBITDA of \$578 million.

In 2008, we completed a number of upgrades and reconfiguration within StarWorld to improve the facilities and the level of service. We changed the layout of our Level One and Level Three in StarWorld by switching Level Three to serve VIP clients and consolidated all mass gaming tables to Level One. We introduced a new poker room on Level Two to attract customers following positive feedback from the Poker tournament which has increased the awareness of Poker among Chinese players. A new Asian restaurant, Sensations was opened on Level One. A number of initiatives relating to the VIP segment were undertaken throughout 2008 included opening a Sky Casino on Level 39, relocating a number of VIP rooms to ensure that they were “right-sized” and expanding selected rooms where appropriate.

As a result of the previously discussed infusion of credit by some Junkets into the market and the consequent higher commission payments to Junkets, StarWorld initially experienced a lower EBITDA per quarter. Subsequent to this, we have focused significant efforts on increasing VIP Rolling Chip and over the period we have sequentially increased our quarterly EBITDA as shown in the graph.

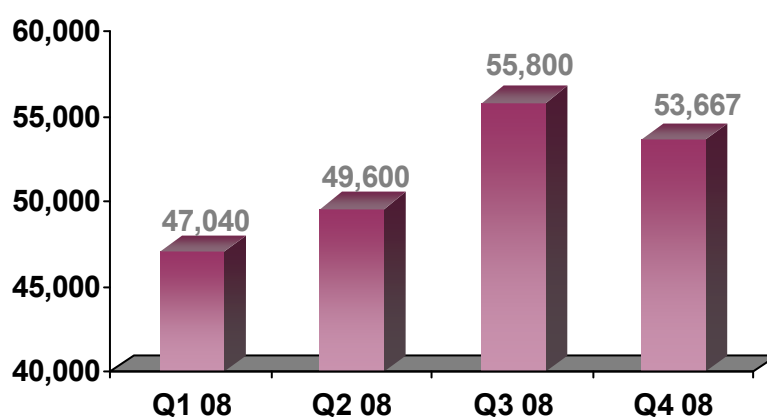


In 2008 StarWorld pro-actively responded to the challenging business environment and increased Rolling Chip by 1.3% from \$203 billion in 2007 to \$206 billion. On a normalized win rate of 2.8% StarWorld’s VIP net win would have been \$460 million up from the reported \$5,310 million.

VIP segment

(HK\$'M)	<u>FYE2007</u>	<u>Q1 2008</u>	<u>Q2 2008</u>	<u>Q3 2008</u>	<u>Q4 2008</u>	<u>FYE2008</u>
Turnover	\$203,428	\$47,043	\$49,581	\$55,801	\$53,667	\$206,092
Net Win	\$6,028	\$1,391	\$1,191	\$1,241	\$1,487	\$5,310
Win %	3.0%	3.0%	2.4%	2.2%	2.8%	2.6%

VIP Turnover (HK\$m)



The Mass Drop for 2008 was \$9,012 million, down 8.8% from \$9,880 million in 2007. The Win rate was slightly less at 15.4% compared to 15.6% in the previous year. Mass Gaming revenue was down 10.3% from \$1,544 million to \$1,385 million.

Mass Gaming

(HK\$'M)	<u>FYE2007</u>	<u>Q1 2008</u>	<u>Q2 2008</u>	<u>Q3 2008</u>	<u>Q4 2008</u>	<u>FYE2008</u>
Drop	9,880	2,200	2,513	2,198	2,101	9,012
Net Win	1,544	325	368	355	337	1,385
Win %	15.6%	14.8%	14.6%	16.2%	16.0%	15.4%

Slot turnover for 2008 was \$1,978 million compared to \$3,099 million in 2007. The win percentage was 6.3% compare to 6.1% in 2007. The Net Win was \$125 million compared to \$190 million in 2007. In the month of June, a strategic decision was taken to refit Level Three consequently the total number of Electronic Gaming machines was reduced substantially.

Electronic Gaming

(HK\$'M)	<u>FYE2007</u>	<u>Q1 2008</u>	<u>Q2 2008</u>	<u>Q3 2008</u>	<u>Q4 2008</u>	<u>FYE2008</u>
Turnover	\$3,100	\$612	\$518	\$430	\$418	\$1,978
Net Win	\$190	\$37	\$32	\$27	\$29	\$125
Win %	6.1%	6.0%	6.2%	6.3%	6.8%	6.3%

In 2008, StarWorld's non-gaming revenue was \$329 million compared to \$234 million previously, an increase of 40% for the year. This growth in revenue was the result of a combination of a number of factors including, higher pricing, the opening of a Grand Ballroom that is available for events and taking over the full management of a joint venture restaurant. The total number of Five-Star hotel rooms nights available in Macau increased by 16% during the year from 250,542 room nights to 290,408 room nights. StarWorld's Hotel room occupancy remained constant at 83% for both 2007 and 2008.

Cotai Development

The development of our resort in Cotai, will redefine the gaming experience in Macau and set a new standard for hospitality in Asia.

The resort will bring "World Class Asian Heart" to the astute Asian consumers. At the heart of the development will be a distinctive casino in terms of architecture and enchanting Asian features. This will include a retail boulevard, lush podium gardens, a wave pool, white sand beach, floating private villas and exclusive poolside cabanas. The white and gold façade towering over Cotai is distinctively designed to immediately capture visitor's attention.

Galaxy remains focused on the construction of area 1 of the resort project while being sensitive to the impact of the global financial downturn. This area will have approximately 5 million sq. ft. of development across two towers, including three luxury hotels and a casino.

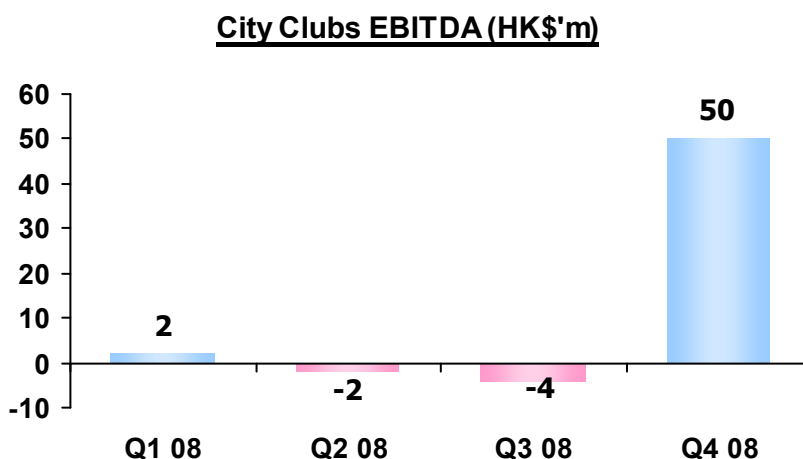
The 5-Star hotel in tower one will be operated by Galaxy. Two additional hotels in the second tower will be managed by the Japanese luxury hotel group Okura and a world's leading resort brand, Banyan Tree, respectively.

Galaxy has a landbank in Cotai of an additional 10.2 million sq ft GFA for the development of areas 2, 3 and 4 of the resort. This ensures Galaxy has the flexibility to grow and expand as market opportunities and economic appropriateness present themselves.

During the year, we advised the market that we were concerned with the economic outlook in 2009. As a consequence, the Group took a strategic decision to slow the development of the project in Cotai and to align the opening of the project with improving market conditions. Construction is now proceeding in line with the market conditions, which will also provide the opportunity of taking advantage of the very likely decrease in costs for materials and labor in the future. We reconfirm our commitment to and belief in Macau and in Cotai specifically and we anticipate to acquire the Cotai land in 2009.

City Clubs

During the year, City Clubs, like all the smaller casinos in Macau, were adversely impacted by significant new supply entering the market. As a result, we restructured our management agreements, adjusted the business model and scale of operations within City Clubs and have successfully brought them back into profitability.



Financial / Operating Efficiency Initiatives

During the course of the year we made several important advances in cost reduction initiatives, particularly in relation to labor efficiency and the number of staff. We have also implemented with the full cooperation of staff a non-paid leave program that commenced in February 2009. These measures have proven to be effective and the benefits to our financial results will continue throughout 2009.

In compliance with Hong Kong Financial Reporting Standards, at each financial reporting date companies are required to assess the carrying values of all their assets on their balance sheet and if appropriate, make an accounting adjustment to the carrying value. As a result, the Group made a net \$11 billion non-cash write-down of the value of gaming licence for accounting purposes. After the impairment charge on the gaming licence, it would reduce our amortization cost of this intangible asset to about \$100 million per annum starting from 2009.

We successfully launched a bond buyback during the reported period and successfully concluded it in January 2009. This bond buyback program resulted in Galaxy purchasing US\$170 million (HK\$1,326 million) of our debt for US\$86 million (HK\$671 million). This has reduced our debt levels, strengthened our Balance Sheet and reduced our cash interest payments by approximately US\$40 million (HK\$312 million) over the remaining term of the bonds.

Project Funding

The Group has significant cash holdings, all three business entities (StarWorld, City Clubs and Construction Materials) are generating substantial free cash flow and combined with our strengthened balance sheet after our bond buyback the Group is in a strong position if it needed to raise debt at some point in the future.

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 13%, as compared to Hong Kong GAAP which would give an EBITDA margin of 8% for 2008.

CONSTRUCTION MATERIALS DIVISION

Construction materials business continued to grow during the year amid a challenging business environment under unprecedented financial market events. The division's geographic, product and end-use balance reduces the effects of varying demand patterns across our markets, and continues to underpin performance and cash flow. The strategic investments in ground granulated blast furnace slag ("GGBS") and cement operations have provided a solid platform for improved performance. As a result, both revenue and EBITDA for 2008 increased by 3% compared to 2007.

Hong Kong and Macau

The demand for construction materials in Hong Kong was generally sluggish in the fourth quarter of the year as the market responded to the economic slowdown by gearing up cost controls and seeking consolidation through various means. In response to the deteriorating backdrop and unparallel rise in energy costs, the division proactively implemented a number of significant cost reduction measures across the business, and this emphasis on operational efficiency and commercial delivery is providing a satisfactory base for profit contribution. In Macau, after a good start, construction projects driven by expansion in the entertainment sector have slowed down as a result of measures imposed by the Central Government to tighten up the approval of traveling visas for visitors from the mainland to the city.

Mainland

The construction materials market was extremely challenging during the year as it adjusted to the effects of the economic slowdown. Against this backdrop, competition continues to intensify, although the upward pressure on raw material costs is moderating. Notwithstanding such a challenging environment, our operations continued to implement stringent cost saving measures in order to maintain our competitive edge in the market.

Our joint ventures for the manufacture and sale of GGBS in the Mainland continue to generate good profit contribution. GGBS production facilities are being further expanded into Qing An and Qinhuangdao, in Hebei Province and Nanjing in Jiangsu Province, which together with investment opportunities in other key strategic locations under consideration, will enable the division to capitalise on this growing market and expand its production capacity and distribution network across Mainland.

Our cement joint ventures in Yunnan Province, including the plant in Baoshan which commenced commercial production in January 2008, are providing good profit contribution to the division. Construction work for a third cement plant in Shizong, Qujing is progressing as planned and is expected to commence production in the second half of 2009. The Central Government's policies to develop western region will continue to generate strong demand for cement, and the division is well positioned to capture the growth in this developing and dynamic market.

Outlook in 2009 and 2010 for Construction Materials Division

One of the leading indicators for economic recovery is the business forward order book of companies in the Construction and Building Materials supply sectors, as increased construction activities stimulate the jobs market. From the second half of 2009, the Construction Materials Division expects its business to strengthen due to impetus from the Hong Kong and Mainland economic programs focusing on road construction and infrastructure over the next few years. With its excellent geographic coverage and extensive range of building materials products and services, the outlook for the Division remains positive as it believes that it is strategically positioned to benefit from the financial stimulus in infrastructure projects designed to 'kick-start' the wider economy.

GROUP OUTLOOK FOR 2009

We have made good progress in the face of a very challenging 2008 and we believe that the Group is well positioned for 2009 and beyond. StarWorld is delivering excellent results and we continue to look for ways to even further improve its performance. The City Club agreements have been restructured and as a result the City Clubs are now providing a positive financial contribution to the Group. We continue to invest into the development of our Cotai project and have taken the strategic decision to align the opening of Cotai to an improving economic environment. We have strengthened our balance sheet by reducing our debt and interest payments and have significant cash holdings. We remain focused on delivering shareholder value.

LIQUIDITY AND FINANCIAL RESOURCES

The shareholders' funds as at 31 December 2008 was \$7,011 million, a decrease of approximately 62% over that as at 31 December 2007 of \$18,407 million while the Group's total assets employed decreased to \$18,652 million as compared to \$31,761 million as at 31 December 2007. The significant decrease was mainly due to the write-down of net amount of approximately \$11 billion made to the carrying value of the gaming licence.

The Group continues to maintain a strong cash position. As at 31 December 2008, total cash and bank balances were \$6,042 million as compared to \$8,230 million as at 31 December 2007. The Group's total indebtedness was \$6,712 million as at 31 December 2008 as compared to \$6,506 million as at 31 December 2007. The gearing ratio, defined as the ratio of total loans outstanding less cash balances to total assets (excludes cash balances), was 5% as at 31 December 2008. The Group was in net cash as at end of year 2007.

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 \$216 million (2007: \$222 million) and bank deposits of \$53 million (2007: \$50 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 \$639 million (2007: \$627 million), of which \$479 million (2007: \$307 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 (2007: \$9 million). At 31 December 2008, facilities utilised amounted to \$9 million (2007: \$9 million).

DEALINGS IN LISTED SECURITIES

On 31 December 2008, US\$113,890,000 principal amount of the guaranteed senior floating rate notes due 2010 and US\$56,337,000 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 approximately US\$86,350,000 (including accrued interest up to the settlement date of 2 January 2009).

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 year ended 31 December 2008.

REVIEW OF ANNUAL RESULTS

The annual results for the year ended 31 December 2008 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 2008 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 2008, 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.

ANNUAL REPORT 2008

The Annual Report 2008 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.

CHANGES IN THE BOARD

Mr. Chan Kai Nang retired as an executive Director of the Company with effect from 1 May 2008 and Dr. Charles Cheung Wai Bun retired by rotation as an independent non-executive Director of the Company at the annual general meeting held on 19 June 2008. The Board extends its gratitude to Mr. Chan and Dr. Cheung for their valuable efforts and contributions to the Group during their terms of appointment.

The Board welcomes the appointment of Dr. Patrick Wong Lung Tak as an independent non-executive Director of the Company with effect from 20 August 2008 bringing substantial valuable experience to the Group.

RETIREMENT OF DIRECTORS

In accordance with Article 106(A) of the Articles of Association of the Company, Mr. Francis Lui Yiu Tung, Mr. Joseph Chee Ying Keung and Dr. Moses Cheng Mo Chi shall retire from office by rotation at the forthcoming annual general meeting. Mr. Francis Lui Yiu Tung and Mr. Joseph Chee Ying Keung, being eligible, will offer themselves for re-election. Dr. Moses Cheng Mo Chi has elected that he will not offer himself for re-election and will retire from office at the forthcoming annual general meeting. In accordance with Article 97 of the Articles of Association of the Company, Dr. Patrick Wong Lung Tak shall hold office until the forthcoming annual general meeting and, being eligible, will offer himself for re-election.

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 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 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, 24 April 2009

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