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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 2012**

#### **INTERIM RESULTS**

The Board of Directors of Galaxy Entertainment Group Limited (“**GEG**”) is pleased to announce the unaudited results of GEG and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2012 as follows:

#### **HIGHLIGHTS**

##### **GEG**

- Half year revenue doubled year-on-year to HK\$28.3 billion
- Half year Group Adjusted EBITDA of HK\$4.7 billion, up 159% year-on-year
- Quarterly Group Adjusted EBITDA of HK\$2.6 billion in Q2, the 15<sup>th</sup> consecutive quarter of EBITDA growth
- Group Adjusted EBITDA on an LTM basis of HK\$8.6 billion
- Net Profit Attributable to Shareholders increased to HK\$3.4 billion

##### **Galaxy Macau™**

- Half year revenue of HK\$16 billion and Adjusted EBITDA of HK\$2.9 billion up 14% and 30% sequentially from 2H 2011 to 1H 2012
- Second quarter revenue of HK\$8.8 billion and Adjusted EBITDA of HK\$1.6 billion up 21% and 20% sequentially from Q1 2012 to Q2 2012
- Mass market revenue of HK\$3.3 billion in the first half grew 36% sequentially
- Adjusted EBITDA margin improved by 12.5% year-on-year from 16% to 18%
- Achieved annualised Return on Investment (ROI\*) of 37%
- Phase 2 on schedule to complete in mid-2015

##### **StarWorld**

- Half year Adjusted EBITDA of HK\$1.8 billion, an increase of 30% year-on-year
- Quarterly Adjusted EBITDA of HK\$906 million, 16<sup>th</sup> consecutive quarter of EBITDA growth
- Achieved ROI\*\* of 98%

##### **Balance Sheet**

- Cash on hand at 30 June 2012 of HK\$11 billion, up from HK\$7.7 billion at 31 December 2011
- Gearing Ratio of 7% at 30 June 2012

\* ROI calculated based on the annualised Q2 2012 Adjusted EBITDA divided by gross investment to date including allocated land cost.

\*\* ROI calculated based on total Adjusted EBITDA for the latest twelve months (LTM) divided by gross book value through 30 June 2012 including land cost.

**CONDENSED CONSOLIDATED INCOME STATEMENT (Unaudited)**  
**For The Six Months Ended 30 June 2012**

	Note	2012 HK\$'000	2011 HK\$'000
Revenue	2	28,321,661	13,666,494
Other income/gains, net		131,817	71,962
Special gaming tax and other related taxes to the Macau Government		(10,375,564)	(5,009,678)
Commission and allowances to gaming counterparties		(9,438,335)	(5,122,960)
Raw materials and consumables used		(383,779)	(275,623)
Amortisation and depreciation		(905,698)	(348,708)
Employee benefit expenses		(2,065,522)	(1,396,917)
Other operating expenses		(1,551,356)	(999,813)
Finance costs		(303,768)	(91,573)
Change in fair value of derivative under the convertible notes		-	(164,718)
Share of profits less losses of:			
Jointly controlled entities		49,292	79,324
Associated companies		1,074	-
Profit before taxation	4	3,479,822	407,790
Taxation charge	5	(25,598)	(18,045)
Profit for the period		3,454,224	389,745
Attributable to:			
Equity holders of the Company		3,446,507	378,309
Non-controlling interests		7,717	11,436
		3,454,224	389,745
		HK cents	HK cents
Earnings per share	6		
Basic		82.5	9.3
Diluted		81.1	9.1

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)**  
**For The Six Months Ended 30 June 2012**

	<b>2012</b>	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period	<b>3,454,224</b>	389,745
Other comprehensive (loss)/income		
Change in fair value of non-current investments	<b>(1,872)</b>	447
Currency translation differences	<b>(21,281)</b>	29,709
Change in fair value of cash flow hedges	<b>(22,791)</b>	(31,121)
	<u><b>(45,944)</b></u>	<u>(965)</u>
Other comprehensive loss for the period, net of tax		
	<u><b>(45,944)</b></u>	<u>(965)</u>
Total comprehensive income for the period	<u><b>3,408,280</b></u>	<u>388,780</u>
Total comprehensive income attributable to:		
Equity holders of the Company	<b>3,402,899</b>	371,405
Non-controlling interests	<b>5,381</b>	17,375
	<u><b>3,408,280</b></u>	<u>388,780</u>

**CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)**

**As at 30 June 2012**

	Note	30 June 2012 HK\$'000	31 December 2011 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		17,460,097	17,469,329
Investment properties		77,000	77,000
Leasehold land and land use rights		4,417,727	4,444,253
Intangible assets		1,209,767	1,270,424
Jointly controlled entities		1,309,512	1,169,155
Associated companies		1,532	458
Long-term pledged bank deposits		1,692,846	1,702,230
Other non-current assets		303,149	348,179
		<u>26,471,630</u>	<u>26,481,028</u>
<b>Current assets</b>			
Inventories		156,717	138,471
Debtors and prepayments	7	2,115,084	1,578,636
Amounts due from jointly controlled entities		375,073	298,194
Taxation recoverable		5,321	8,379
Other investments		6,248	8,330
Other cash equivalents		1,113,460	1,238,562
Cash and bank balances		9,333,620	6,012,706
		<u>13,105,523</u>	<u>9,283,278</u>
<b>Total assets</b>		<u><u>39,577,153</u></u>	<u><u>35,764,306</u></u>
<b>EQUITY</b>			
Share capital		418,834	417,421
Reserves		17,326,746	13,804,605
Shareholders' funds		17,745,580	14,222,026
Non-controlling interests		445,565	421,201
<b>Total equity</b>		<u>18,191,145</u>	<u>14,643,227</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings		10,101,286	10,530,722
Deferred taxation liabilities		279,087	276,220
Derivative financial instruments		86,266	63,475
Provisions		90,973	101,234
Retention payable		174,308	155,984
		<u>10,731,920</u>	<u>11,127,635</u>
<b>Current liabilities</b>			
Creditors and accruals	8	9,242,348	8,829,439
Amounts due to jointly controlled entities		14,985	14,875
Current portion of borrowings		1,373,630	1,141,862
Provision for tax		23,125	7,268
		<u>10,654,088</u>	<u>9,993,444</u>
<b>Total liabilities</b>		<u>21,386,008</u>	<u>21,121,079</u>
<b>Total equity and liabilities</b>		<u>39,577,153</u>	<u>35,764,306</u>
<b>Net current assets/(liabilities)</b>		<u>2,451,435</u>	<u>(710,166)</u>
<b>Total assets less current liabilities</b>		<u>28,923,065</u>	<u>25,770,862</u>

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 1. Basis of preparation and accounting policies

The condensed consolidated interim financial information for the six months ended 30 June 2012 has been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” 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. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2011, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

The accounting policies 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 2011, except as described below:

(a) The adoption of new/revised HKFRS

In 2012, the Group adopted the following new/revised HKFRS which are relevant to its operations.

HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Transfers of Financial Assets
HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets

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.

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

### (b) Standards and amendments to existing standards that are not yet effective

<u>New standards and amendments</u>		Effective for accounting periods beginning on or after
HKAS 1 (Amendment)	Presentation of Financial Statements	1 July 2012
HKAS 19 (2011)	Employee Benefits	1 January 2013
HKAS 27 (2011)	Separate Financial Statements	1 January 2013
HKAS 28 (2011)	Investments in Associates and Joint Ventures	1 January 2013
HKFRS 10	Consolidated Financial Statements	1 January 2013
HKFRS 11	Joint Arrangements	1 January 2013
HKFRS 12	Disclosure of Interests in Other Entities	1 January 2013
HKFRS 13	Fair Value Measurement	1 January 2013
HKFRS 7 (Amendments)	Financial Instruments: Disclosure – Offsetting Financial Assets and Financial Liabilities	1 January 2013
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013
HKAS 32 (Amendments)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	1 January 2014
HKFRS 7 (Amendments)	Financial Instruments: Disclosure – Mandatory Effective Date of HKFRS 9 and Transitional Disclosure	1 January 2015
HKFRS 9	Financial Instruments	1 January 2015

The Group has not early adopted the above standards 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.

## 2. Revenue

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

	<b>2012</b>	2011
	<b>HK\$'000</b>	HK\$'000
Sales of construction materials	<b>939,785</b>	646,834
Gaming operations		
Net gaming wins	<b>26,386,631</b>	12,722,795
Contributions from Certain City Club Casinos ( <i>Note</i> )	<b>75,745</b>	45,563
Tips received	<b>11,026</b>	5,533
Hotel operations	<b>902,327</b>	241,729
Administrative fees from gaming operations	<b>6,147</b>	4,040
	<b>28,321,661</b>	13,666,494

(*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 the 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 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 interim financial information.

During the period ended 30 June 2012, the Group is entitled to HK\$75,745,000 (2011: HK\$45,563,000), which is calculated by reference to various rates on the net gaming wins. Special gaming tax and other related taxes to the Macau Government, and 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 interim financial information.

### **3. Segment information**

The Board of Directors is responsible for allocating resources, assessing performance of the operating segment and making strategic decisions, based on a measurement of adjusted earnings before interest, tax, depreciation, amortisation and certain items (the “Adjusted EBITDA”). This measurement basis of Adjusted EBITDA excludes the effects of non-recurring income and expenditure from the operating segments, such as pre-opening expenses, sponsorship, gain on unlisted 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, share option expenses, donation expenses, 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 represents 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.



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

	Gaming and entertainment <i>HK\$'000</i>	Construction materials <i>HK\$'000</i>	Corporate and treasury management <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Six months ended 30 June 2012</b>				
Reportable segment revenue	29,187,734	939,785	-	30,127,519
Adjusted for:				
Certain City Club Casinos arrangement set out in note 2				
Revenue not recognised	(1,883,199)	-	-	(1,883,199)
Contributions	75,745	-	-	75,745
Others	1,596	-	-	1,596
Revenue recognised under HKFRS	<u>27,381,876</u>	<u>939,785</u>	<u>-</u>	<u>28,321,661</u>
Adjusted EBITDA	<u>4,551,472</u>	<u>228,139</u>	<u>(67,181)</u>	4,712,430
Interest income and gross earnings on finance lease				54,096
Amortisation and depreciation				(905,698)
Finance costs				(303,768)
Taxation charge				(25,598)
Taxation of jointly controlled entities				(13,628)
Adjusted items:				
Pre-opening expenses of Galaxy Macau™ Phase 2 at Cotai				(7,115)
Unrealised loss on listed investments				(2,082)
Share option expenses				(70,167)
Donation and sponsorship				(14,884)
Impairment of certain property, plant and equipment				(14,849)
Gain on unlisted investment and other income				45,487
Profit for the period				<u>3,454,224</u>

### 3. 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 2011</b>				
Reportable segment revenue	14,313,450	646,834	-	14,960,284
Adjusted for:				
Certain City Club Casinos arrangement set out in note 2				
Revenue not recognised	(1,340,681)	-	-	(1,340,681)
Contributions	45,563	-	-	45,563
Others	1,328	-	-	1,328
Revenue recognised under HKFRS	<u>13,019,660</u>	<u>646,834</u>	<u>-</u>	<u>13,666,494</u>
Adjusted EBITDA	<u>1,684,691</u>	<u>177,778</u>	<u>(44,937)</u>	1,817,532
Interest income and gross earnings on finance lease				27,649
Amortisation and depreciation				(348,708)
Finance costs				(91,573)
Change in fair value of derivative under the convertible notes				(164,718)
Taxation charge				(18,045)
Taxation of jointly controlled entities				(9,346)
Adjusted items:				
Pre-opening expenses of Galaxy Macau™ Phase 1 at Cotai				(766,760)
Unrealised loss on listed investments				(6,700)
Share option expenses				(36,915)
Donation and sponsorship				(30,209)
Other compensation income				17,538
Profit for the period				<u>389,745</u>

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

	Gaming and entertainment <i>HK\$'000</i>	Construction materials <i>HK\$'000</i>	Corporate and treasury management <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>As at 30 June 2012</b>				
Total assets	<u>32,780,882</u>	<u>4,140,567</u>	<u>2,655,704</u>	<u>39,577,153</u>
Total assets include:				
Jointly controlled entities	22,122	1,287,390	-	1,309,512
Associated companies	-	1,532	-	1,532
Total liabilities	<u>16,458,135</u>	<u>1,645,867</u>	<u>3,282,006</u>	<u>21,386,008</u>
<b>As at 31 December 2011</b>				
Total assets	<u>29,892,938</u>	<u>3,754,280</u>	<u>2,117,088</u>	<u>35,764,306</u>
Total assets include:				
Jointly controlled entities	12,391	1,156,764	-	1,169,155
Associated companies	-	458	-	458
Total liabilities	<u>16,108,124</u>	<u>1,540,599</u>	<u>3,472,356</u>	<u>21,121,079</u>
<b>Six months ended 30 June 2012</b>				
Additions to non-current assets	<u>707,542</u>	<u>122,756</u>	<u>26</u>	<u>830,324</u>
Six months ended 30 June 2011				
Additions to non-current assets	<u>4,195,400</u>	<u>87,962</u>	<u>175</u>	<u>4,283,537</u>
<b>Geographical analysis</b>				
			2012	2011
<b>Six months ended 30 June</b>			<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Revenue</b>				
Macau			27,481,948	13,065,914
Hong Kong			610,675	382,445
Mainland China			229,038	218,135
			<u>28,321,661</u>	<u>13,666,494</u>
<b>Non-current assets, other than financial instruments</b>			As at 30 June 2012	As at 31 December 2011
			<i>HK\$'000</i>	<i>HK\$'000</i>
Macau			22,335,370	22,499,814
Hong Kong			457,188	463,998
Mainland China			1,986,226	1,814,986
			<u>24,778,784</u>	<u>24,778,798</u>

#### 4. Profit before taxation

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Profit before taxation is stated after crediting:		
Rental income from investment properties	4,376	3,123
Interest income	53,460	26,280
Dividend income from listed investments	-	181
Dividend income from unlisted investments	28,000	-
Gain on disposal of property, plant and equipment	602	162

and after charging:

Unrealised loss on listed investments	2,082	6,700
Depreciation	790,411	253,663
Amortisation		
Gaming licence	53,023	52,732
Computer software	23,981	7,584
Quarry site improvements	7,756	7,756
Overburden removal costs	4,010	4,010
Quarry site development	158	158
Leasehold land and land use rights	26,359	22,805

#### 5. Taxation charge

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Current taxation		
Hong Kong profits tax	17,303	9,845
Mainland China income tax	6,325	6,700
Macau complementary tax	-	235
Net (over)/under-provision in prior years	(889)	1
Deferred taxation	2,859	1,264
Taxation charge	25,598	18,045

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 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% (2011: 12% to 25%).

## 6. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one (2011: two) category of dilutive potential ordinary shares: share options (2011: convertible notes and share options). Diluted earnings per share for the period ended 30 June 2011 did not assume the conversion of the convertible notes at the beginning of period and to the date of conversion since the conversion would have an anti-dilutive effect. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

The calculation of basic and diluted earnings per share for the period is based on the following:

	<b>2012</b> <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Profit attributable to equity holders of the Company	<u><b>3,446,507</b></u>	<u>378,309</u>
	<b>Number of shares</b>	
	<b>2012</b>	2011
Weighted average number of shares for calculating basic earnings per share	<b>4,179,839,646</b>	4,089,356,225
Effect of dilutive potential ordinary shares		
Share options	<u><b>68,540,235</b></u>	<u>90,572,838</u>
Weighted average number of shares for calculating diluted earnings per share	<u><b>4,248,379,881</b></u>	<u>4,179,929,063</u>

## 7. Debtors and prepayments

	<b>30 June</b> <b>2012</b> <i>HK\$'000</i>	31 December 2011 <i>HK\$'000</i>
Trade debtors, net of provision	<b>617,232</b>	594,833
Other debtors and deposit paid, net of provision	<b>1,364,049</b>	901,611
Prepayments	<b>103,958</b>	50,438
Amounts due from associated companies	<b>16,788</b>	17,420
Current portion of finance lease receivable	<b>13,057</b>	14,334
	<u><b>2,115,084</b></u>	<u>1,578,636</u>

## 7. 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 (2011: 30 to 60 days) for customers in Hong Kong and Macau and 120 to 210 days (2011: 120 to 210 days) for customers in Mainland China. These are subject to periodic reviews by management.

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

	<b>30 June</b> <b>2012</b> <i>HK\$'000</i>	31 December 2011 <i>HK\$'000</i>
Within one month	<b>217,491</b>	240,364
Two to three months	<b>206,000</b>	211,222
Four to six months	<b>60,440</b>	98,280
Over six months	<b>133,301</b>	44,967
	<b>617,232</b>	594,833

## 8. Creditors and accruals

	<b>30 June</b> <b>2012</b> <i>HK\$'000</i>	31 December 2011 <i>HK\$'000</i>
Trade creditors	<b>1,254,083</b>	943,626
Other creditors	<b>4,318,899</b>	4,408,892
Chips issued	<b>2,205,816</b>	2,042,824
Loans from non-controlling interests	<b>59,706</b>	68,216
Accruals and provision	<b>1,382,659</b>	1,304,342
Deposits received	<b>21,185</b>	61,539
	<b>9,242,348</b>	8,829,439

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

	<b>30 June</b> <b>2012</b> <i>HK\$'000</i>	31 December 2011 <i>HK\$'000</i>
Within one month	<b>1,088,096</b>	724,053
Two to three months	<b>77,662</b>	99,550
Four to six months	<b>31,434</b>	35,457
Over six months	<b>56,891</b>	84,566
	<b>1,254,083</b>	943,626

## **INTERIM DIVIDEND**

With the substantial business growth pipeline, the Board of Directors has decided to reinvest all surplus funds into the development of GEG. As a result, the Board of Directors does not declare any interim dividend for the six months ended 30 June 2012 (2011: nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

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

### **OVERVIEW**

The first six months of 2012 once again saw the Group delivered encouraging financial and operational results. Revenue year-on-year doubled to \$28.3 billion and Group Adjusted EBITDA increased by 159% to a record \$4.7 billion, led by a significant contribution from Galaxy Macau™ and a continuing strong performance by StarWorld. City Clubs and Construction Materials Division also played their part, generating healthy profits. The management team's rigorous focus on driving profitability through improving efficiencies, combined with increases in higher margin mass market gaming revenue at both Galaxy Macau™ and StarWorld, resulted in the Group concluding the period with its 15<sup>th</sup> consecutive quarter of EBITDA growth with earnings growing quarter-on-quarter.

The performance of Galaxy Macau™ in its first full twelve months since opening has firmly established itself in the Macau leisure and entertainment market. In the first six months of the year it reported Adjusted EBITDA of \$2.9 billion.

StarWorld, the Group's flagship casino on the Macau peninsula, delivered another set of solid results, achieving a 30% uplift in Adjusted EBITDA. The second quarter represented its 16<sup>th</sup> consecutive quarter of EBITDA growth. All the property's business segments reported growth year-on-year, with mass market revenue showing a gain of 52%. StarWorld reported an annualised ROI of 98%.

Over the last few years Macau has proven itself to be a first class leisure and tourism destination. With a number of infrastructure projects due to complete in the near future, such as the last four stations of the Guangzhou-Zhuhai Intercity Mass Rapid Transit between Zhuhai North and Macau, it is expected that the improved infrastructure will provide greater accessibility to Macau. GEG's well-balanced portfolio of properties and businesses, position it well to realise its goal to be 'globally recognised as Asia's leading gaming and entertainment corporation'.

### **GAMING AND ENTERTAINMENT DIVISION**

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

The Macau gaming market continued to achieve good growth in the first half of the year, with total gaming revenue increasing by 20% to \$144 billion. Gaming revenue in the second quarter was \$72 billion, a record quarterly high. Total visitor arrivals in the period were 13.6 million, representing a 2.5% increase on the first half of 2011.

VIP gaming remains the largest segment of the market. In the first half it registered year-on-year growth of 15%, albeit growth has moderated for two consecutive quarters. Revenue reached \$102 billion (1H 2011: \$88.5 billion).

Mass market continued to be the growth engine for the overall market, posting gains of almost 36%. Revenue climbed from \$26.7 billion in the first half of 2011 to \$36.2 billion in the first half of 2012.

Electronic gaming accounts for 4.4% of the total gaming market. In the period, revenue increased to \$6.4 billion, compared to \$5.4 billion in the first half of 2011.

## REVIEW OF OPERATIONS

### Group Financial Results

In the first six months of 2012 GEG achieved revenue of \$28.3 billion, generating Adjusted EBITDA of \$4.7 billion, for a year-on-year increase of 159%. Revenue and Adjusted EBITDA in the comparable period last year were \$13.7 billion and \$1.8 billion respectively, which reflects Galaxy Macau™'s contribution from opening in 15 May 2011 to 30 June 2011. On a latest twelve months ("LTM") basis, Group Adjusted EBITDA increased by 182% to \$8.6 billion. Net profit attributable to shareholders grew to \$3.4 billion. These increases reflect a full twelve-month contribution from Galaxy Macau™ and a strong underlying performance from StarWorld. All of GEG's other businesses, including City Clubs and Construction Materials Division, continued to perform solidly and made valuable contributions.

A key factor in the Group's improved earnings is the performance of both properties in the mass market. Galaxy Macau™ mass market revenue grew 36% from the second half of 2011 to \$3.3 billion in the first half of 2012. StarWorld registered a 52% increase year-on-year to just over \$1.1 billion.

GEG's strong cash generation resulted in cash on hand increasing from \$7.7 billion at the end of 2011 to just over \$11 billion at period end, including restricted cash of \$1.9 billion. Further, the Group invested approximately \$1.4 billion into capital expenditure during the period.

Set out below is the segmental statistics of the Group's operating results for the half year ended 30 June 2012:

1H 2012 (HK\$'m)	Gaming and Entertainment	Construction Materials	Corporate	Total
Revenue	27,382	940	-	28,322
Adjusted EBITDA	4,551	228	(67)	4,712

1H 2011 (HK\$'m)	Gaming and Entertainment	Construction Materials	Corporate	Total
Revenue	13,020	647	-	13,667
Adjusted EBITDA	1,685	178	(45)	1,818

### Galaxy Macau™

#### *Financial and Operational Performance*

Revenue and Adjusted EBITDA climbed to \$16 billion and \$2.9 billion respectively for the first half of 2012. Annualised Q2 2012 Adjusted EBITDA of \$6.3 billion translates into an ROI of 37%.



The positive momentum in the business continued in the second quarter of 2012, with Adjusted EBITDA increasing by 20% over the first quarter to \$1.6 billion. Under HK GAAP, Adjusted EBITDA margins improved by 12.5% year-on-year from 16% to 18%, and under US GAAP rose from 22% in 1H 2011 to 26% in 1H 2012. This margin improvement reflected larger volumes, higher margin play and increased operational efficiencies.

Further, Galaxy Macau™ enhanced its gaming and entertainment offering by opening two new luxurious Sky casinos, the Pavilion High Limit Slots, an additional VIP room, and its private members club China Rouge, among others.

### *VIP Gaming Performance*

Total VIP rolling chip volume in the period was \$358 billion, with revenue of \$11.4 billion. Growth accelerated from first quarter 2012 to second quarter 2012 with VIP rolling chip increasing by 9% to \$186 billion, and revenue increasing by 23% to \$6.3 billion.

VIP Gaming						
HK\$m	Q2 2011 <sup>^</sup>	Q2 2012	YoY%	1H 2011 <sup>^</sup>	1H 2012	YoY%
Turnover	50,000	186,400	273%	50,000	357,800	616%
Net Win	1,800	6,300	250%	1,800	11,400	533%
Win %	3.5%	3.4%	n/a	3.5%	3.2%	n/a

<sup>^</sup> Galaxy Macau™ opened on 15 May 2011, so the results for the Q2 and 1H 2011 are the same which reflected 47 days for the period from opening to 30 June 2011.

### *Mass Gaming Performance*

Revenue in the mass market segment was \$3.3 billion, representing an increase of 36% compared to the second half of 2011. Second quarter revenue increased by 8% quarter-on-quarter.

Mass Gaming						
HK\$m	Q2 2011 <sup>^</sup>	Q2 2012	YoY%	1H 2011 <sup>^</sup>	1H 2012	YoY%
Table Drop	2,400	6,000	150%	2,400	11,900	396%
Net Win	400	1,700	325%	400	3,300	725%
Hold %	17.5%	28.4%	n/a	17.5%	27.8%	n/a

### *Electronic Gaming Performance*

Galaxy Macau™'s electronic gaming revenue in the first half of 2012 increased by 7% to \$569 million over the second half of 2011.

Electronic Gaming						
HK\$m	Q2 2011 <sup>^</sup>	Q2 2012	YoY%	1H 2011 <sup>^</sup>	1H 2012	YoY%
Slots Handle	1,800	4,400	144%	1,800	8,700	383%
Net Win	114	271	138%	114	569	399%
Hold %	6.3%	6.2%	n/a	6.3%	6.5%	n/a

### ***Non-Gaming Performance***

Non-gaming revenue increased from \$600 million in the second half of 2011 to \$695 million in the period, as Galaxy Macau™ attracted an ever increasing number of new customers, including families that aspire for a truly unique resort experience in Macau.

Galaxy Macau™ currently provides three unique hotel experiences in one resort; the five star Galaxy Hotel, Japan's legendary Hotel Okura Macau and the award winning ultra-exclusive Banyan Tree Macau. All three hotels continued to excel, providing impeccable, warm, attentive and gracious hospitality. By period end, the room occupancy rate stood at 94%. The hotels' in-house leisure amenities are complemented by Galaxy Macau™'s skytop wave pool, the largest in the world. It continues to be a major draw with thousands of visitors per week.

The property has a wide variety of Asian and international cuisine choices, comprising over 55 restaurants, cafes, bars and lounges, staffed by award winning chefs from across the world, it caters for all tastes ranging from family-friendly casual to exquisite fine dining.

During the period Galaxy Macau™ further reinforced its reputation as one of the prime entertainment hotspots in Macau. Its modern 3D cineplex, which opened amidst much fanfare with the world premiere of the eagerly anticipated Chinese film of the decade *The Flying Swords of Dragon Gate 3D*, continues to see attendance rise. Our private members club China Rouge has also been successful since it opened in March this year, featuring musical artists such as Laura Fygi and Hacken Lee.

The property's distinctive layout has been instrumental in growing revenue, as it facilitates a seamless navigation between the gaming areas and entertainment, retail and food & beverage outlets.

### ***Major Awards***

GEG is delighted to report that Galaxy Macau™ received a number of new accolades in the period, including The Best New Hotel (Macau) by the TTG China Travel Awards and Top Ten Resort Hotels of China by the China Hotel Starlight Awards.

### ***Galaxy Macau™ Phase 2***

Building on the success of the internationally recognised Phase 1 of Galaxy Macau™, GEG announced on 26 April 2012 its plans for Phase 2 which virtually doubles the size of Galaxy Macau™. The accelerated rollout of Phase 2 is timed to coincide with the completion of major infrastructure developments in the greater Macau region, and we believe Phase 2 will be the next major project to complete in Macau in mid-2015.

The development is expected to be accretive to GEG's earnings and the investment will be made from GEG's existing reserves, cash from operations and debt.

At period end, the development work is on track with piling set to be completed by the end of the year.

Phase 2 will include:

- Two new luxury hotels including The Ritz-Carlton's first ever all-suite hotel and the world's largest JW Marriott with an aggregate of 1,300 rooms and suites for a grand total of over 3,600 rooms & suites across five luxury hotels

- Expanded retail space to over 200 luxury stores
- Increased meeting, event & banquet space to a capacity of over 3,000 guests
- Enhancement of the world's largest skytop wave pool resort deck with additional leisure amenities and lush tropical gardens
- Expanded gaming capacity by up to 500 tables and over 1,000 slot machines
- Addition of over 45 new food & beverage outlets for a grand total of over 100

## StarWorld Hotel & Casino

### *Financial and operational performance*

StarWorld, the Group's flagship property on the Macau peninsula, once again achieved encouraging results, posting its 16<sup>th</sup> consecutive quarter of EBITDA growth in the second quarter of 2012. Adjusted EBITDA for the first half was up 30% to \$1.8 billion, on the back of a 13% increase in revenue to \$11.3 billion. Margins remained stable at 16% under HK GAAP and 26% under US GAAP. StarWorld reported annualised ROI of 98%.

### *VIP Gaming Performance*

StarWorld achieved VIP rolling chip volume of \$339 billion, up 10% on the comparable period last year (1H 2011: \$309 billion). This resulted in revenue of \$9.9 billion (1H 2011: \$8.9 billion).

VIP Gaming							
HK\$m	Q1 2011	Q2 2011	1H 2011	Q1 2012	Q2 2012	1H 2012	YoY%
Turnover	151,000	158,000	309,000	176,100	163,000	339,100	10%
Net Win	4,400	4,500	8,900	4,800	5,100	9,900	11%
Win %	2.9%	2.9%	2.9%	2.7%	3.1%	2.9%	n/a

### *Mass Gaming Performance*

Mass gaming revenue in the first half of the year grew by 52% year-on-year to \$1.1 billion on volume of \$4.8 billion (1H 2011: \$4 billion). Shared transport links with its sister casino Galaxy Macau™ continues to be an effective driver of visitations.

Mass Gaming							
HK\$m	Q1 2011	Q2 2011	1H 2011	Q1 2012	Q2 2012	1H 2012	YoY%
Table Drop	1,900	2,100	4,000	2,390	2,370	4,760	19%
Net Win	362	366	728	564	545	1,109	52%
Hold %	18.1%	17.3%	17.7%	23.2%	22.5%	22.9%	n/a

### *Electronic Gaming Performance*

StarWorld's electronic gaming generated revenue of \$122 million, marginally up on the same period last year.

<b>Electronic Gaming</b>							
<b>HK\$m</b>	<b>Q1 2011</b>	<b>Q2 2011</b>	<b>1H 2011</b>	<b>Q1 2012</b>	<b>Q2 2012</b>	<b>1H 2012</b>	<b>YoY%</b>
<b>Slots Handle</b>	1,050	1,020	2,070	<b>930</b>	<b>840</b>	<b>1,770</b>	<b>-14%</b>
<b>Net Win</b>	70	49	119	<b>62</b>	<b>60</b>	<b>122</b>	<b>3%</b>
<b>Hold %</b>	6.7%	4.8%	5.8%	<b>6.6%</b>	<b>7.2%</b>	<b>6.9%</b>	<b>n/a</b>

### *Non-Gaming Performance*

Non-gaming revenue in the period increased by 34% to \$207 million (1H 2011: \$154 million) and hotel room occupancy continued to remain at 98%.

### *Major Awards*

During the first six months StarWorld has received a number of prestigious plaudits, including Top Ten Influential Hotel of Asia, The Best Excellent Service Quality Hotel of China and The Best Guest Experience Hotel of China from 2012 Asia Hotel Golden-Olive Awards; Top Ten Most Charming Hotel in Asia and Best Service Hotel from the Golden Horse Award of China Hotel, as well as Top Ten Glamorous Hotels of China from the China Hotel Starlight Awards.

### **City Clubs**

City Clubs continue to perform as a boutique service provider to select and valued customers. In the first half of the year it contributed \$82 million to the Group's earnings (1H 2011: \$106 million).

GEG will continue to manage the business prudently to ensure its long term sustainability.

## **CONSTRUCTION MATERIALS DIVISION**

The Construction Materials Division ("CMD") continues to deliver a solid performance from its integrated construction materials businesses in Hong Kong and Macau, which was partially offset by the softening demand in the ground granulated blast-furnace slag ("slag") and cement businesses in Mainland China. For the first half of 2012, revenue grew to \$940 million, representing an increase of 45% over the corresponding period last year. CMD's Adjusted EBITDA surged to \$228 million, representing an increase of 28% over the corresponding period last year.

### **Hong Kong and Macau**

During the first half of 2012, strong market demand for construction materials in Hong Kong resulted in satisfactory profits being generated. As several major infrastructure development projects continue to progress, it is expected that the construction materials market will continue to prosper in the near future. A new quarry in Guangdong Province is scheduled to commence operation in the second half of 2012. This will further strengthen CMD's position to capture increased market demand for high quality construction materials in the region.

In Macau, increasing construction activities from the public housing sector, and the expansion of construction works in the gaming industry had led to increased demand for ready-mixed concrete in the period. CMD's ready-mixed concrete's operation is well positioned to continue benefiting from this positive trend.

### **Mainland China**

In the first half of 2012, weak market demand for cement in Mainland China led to a drop in the selling prices of cement, which inevitably impacted the selling price of slag. The Group believes the demand for slag, an environmentally friendly and green sustainable construction product, will improve and will therefore continue to make a valuable profit contribution to CMD. In order to maintain its leadership position in slag, the Group intends to add capacity during the remainder of the year.

Unlike other areas in Mainland China, the market demand for cement in the Yunnan Province remains strong. This is due to its geographical location and the Central Government's policy to accelerate the western region's economic growth through infrastructure construction, and developing Yunnan Province into a bridgehead for enhancing Mainland China's economic activity in Southeast Asia. CMD will continue to expand cement production capacity in the Province given the promising outlook.

### **GROUP OUTLOOK**

While it is prudent for GEG to continue to keep a watchful eye on the pace of the economic recovery in the United States and the continuing Eurozone crisis, it retains every confidence in the prospects for the industry and Macau as a whole in the medium and long-term.

The management team will continue to manage the business in a careful and prudent manner, and the Group's strong cash position, low debt to Adjusted EBITDA ratio and gearing ratio of 7% provides a real platform of strength from which the business can be developed to maximise returns for all stakeholders.

Looking further ahead, it is very unlikely that the industry can maintain the unprecedented growth levels of previous years. However, GEG's performance in the first half illustrates that quarter-on-quarter growth is achievable for operators. The Group remains uniquely and strategically positioned to capitalise on Macau's growth opportunities both in the immediate term through its existing operations and long-term as a result of Galaxy Macau™ Phase 2 and its land bank.

### **LIQUIDITY AND FINANCIAL RESOURCES**

The shareholders' funds as at 30 June 2012 was \$17,746 million, an increase of approximately 25% over that as at 31 December 2011 of \$14,222 million while the Group's total assets employed increased to \$39,577 million as at 30 June 2012 as compared with \$35,764 million as at 31 December 2011.

The Group continues to maintain a strong cash position. As at 30 June 2012, total cash and bank balances were \$9,334 million as compared with \$6,013 million as at 31 December 2011. The Group's total indebtedness was \$11,475 million as at 30 June 2012 as compared with \$11,672 million as at 31 December 2011. The gearing ratio, defined as the ratio of total borrowings outstanding less cash and bank balances to total assets (excludes cash and bank balances), was 7% as at 30 June 2012 (31 December 2011: 19%).

The total indebtedness of the Group mainly comprises bank loans, Renminbi bonds and other obligations which are largely denominated in Hong Kong Dollar and Renminbi. 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 Hong Kong Dollar, Renminbi 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 Hong Kong Dollar and Renminbi. Forward foreign exchange contracts are utilised when suitable opportunities arise and when considered appropriate, to hedge against foreign exchange exposure, which are considered necessary for the Group's treasury management activities.

## **CHARGES ON GROUP ASSETS**

Property, plant and equipment with net book value of \$15,774 million (31 December 2011: \$16,349 million), leasehold land and land use rights with net book value of \$2,794 million (31 December 2011: \$2,828 million), other assets with net book value of \$295 million (31 December 2011: \$235 million), bank deposits of \$1,823 million (31 December 2011: \$1,802 million) and shares of certain subsidiaries have been pledged to secure banking facilities.

## **GUARANTEES**

GEG has executed guarantees in favour of banks in respect of facilities granted to subsidiaries amounting to \$7,971 million (31 December 2011: \$10,057 million), of which \$7,603 million (31 December 2011: \$7,543 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 2011: \$9 million). At 30 June 2012, facilities utilised amounted to \$9 million (31 December 2011: \$9 million).

## **DEALINGS IN LISTED SECURITIES**

Neither GEG nor any of its subsidiaries has purchased, sold or redeemed any of the GEG's shares or listed debt securities during the six months ended 30 June 2012.

## REVIEW OF INTERIM RESULTS

The Group's interim results for the six months ended 30 June 2012 have been reviewed by the Audit Committee and by 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 Auditor will be included in the Interim Report 2012 to shareholders.

## CORPORATE GOVERNANCE

Throughout the six months ended 30 June 2012, GEG has complied with the code provisions in the Code on Corporate Governance Practices during the period from 1 January 2012 to 31 March 2012 and the Corporate Governance Code during the period from 1 April 2012 to 30 June 2012 as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong (the "Listing Rules"), except code provisions A.4.2, A.6.7 and E.1.2.

A.4.2 – Given that the other Directors do retire by rotation in accordance with the Articles of Association of GEG, the Board considers that 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 GEG.

A.6.7 – Two non-executive Directors including an independent non-executive Director, were unable to attend the annual general meeting of GEG held on 22 May 2012 due to other commitment.

E.1.2 – The Chairman was unable to attend the annual general meeting held on 22 May 2012 and the Deputy Chairman took the chair and together with the other directors answered questions from the floor. The Board considered that the purpose to achieve an effective communication with the shareholders was not compromised.

## INTERIM REPORT 2012

The Interim Report 2012 of GEG containing all the information required by the Listing Rules will be published on the respective websites of Hong Kong Exchanges and Clearing Limited and GEG and printed copies will be sent to the shareholders in due course.

By Order of the Board  
**Galaxy Entertainment Group Limited**  
**Jenifer Sin Li Mei Wah**  
*Company Secretary*

Hong Kong, 27 August 2012

*As at the date of this announcement, the executive Directors of GEG 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 GEG are Mr. Anthony Thomas Christopher Carter and Mr. Henry Lin Chen; and the independent non-executive Directors of GEG are Mr. James Ross Ancell, Dr. William Yip Shue Lam and Dr. Patrick Wong Lung Tak.*

Website: [www.galaxyentertainment.com](http://www.galaxyentertainment.com)