



銀河娛樂集團有限公司
Galaxy Entertainment Group Limited



Interim Report

2006

(Stock Code : 27)

THE COMPANY

Since our listing in 1991, Galaxy Entertainment Group Limited (Hong Kong listed stock code 0027) has built a solid business foundation in Hong Kong and mainland China. Through business acquisitions, we have been constantly expanding our investment portfolios on an enterprising yet prudent strategy aiming to provide shareholders with the best return on their investment.

Following our acquisition of the gaming and entertainment business in Macau in July 2005, our primary business objective is to be a leading operator of gaming and entertainment facilities in Macau. Our major subsidiary, Galaxy Casino, S.A. has a gaming concession from the Macau Government and is one of only three companies licensed by the Macau Government to operate casinos in Macau.

We also maintain our leading position as a major supplier of quality construction materials in Hong Kong and mainland China and driven by the strong economic growth of Macau, we have been expanding into the area to capitalize on our expertise.

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CORPORATE INFORMATION

CHAIRMAN

Dr. Lui Che Woo, *GBS, MBE, JP, LLD, DSSc*

DEPUTY CHAIRMAN

Francis Lui Yiu Tung

EXECUTIVE DIRECTORS

Chan Kai Nang

Joseph Chee Ying Keung

William Lo Chi Chung

Paddy Tang Lui Wai Yu, *JP*

NON-EXECUTIVE DIRECTORS

Dr. Charles Cheung Wai Bun, *JP**

Moses Cheng Mo Chi, *GBS, OBE, JP*

James Ross Ancell*

Dr. William Yip Shue Lam, *LLD**

* *Independent Non-executive Directors*

AUDIT COMMITTEE

Dr. Charles Cheung Wai Bun, *JP*

Moses Cheng Mo Chi, *GBS, OBE, JP*

James Ross Ancell

REMUNERATION COMMITTEE

Francis Lui Yiu Tung

Dr. Charles Cheung Wai Bun, *JP*

Dr. William Yip Shue Lam, *LLD*

COMPANY SECRETARY

Kitty Chan Lai Kit

QUALIFIED ACCOUNTANT

Cheung Wing Hong

AUDITORS

PricewaterhouseCoopers

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SHARE REGISTRARS

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WEBSITE ADDRESS

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SHARE LISTING

The Stock Exchange of Hong Kong Limited (“SEHK”)

STOCK CODE

SEHK : 27

Bloomberg : 27 HK

Reuters : 0027.HK

ADR : GXYEY

INVESTOR RELATIONS CONTACT

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RESULTS HIGHLIGHTS

INTERIM RESULTS

The Directors of Galaxy Entertainment Group Limited (the “Company”) announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30th June 2006 as follows:

The turnover of the Group for the six months ended 30th June 2006 was HK\$1,306,321,000 representing an increase of HK\$766,749,000 over the corresponding period last year.

The loss attributable to shareholders of the Group for the six months ended 30th June 2006 amounted to HK\$734,452,000 representing a decrease of HK\$748,758,000 over the corresponding period last year.

Following the acquisition of 88.1% of the voting shares carrying 97.9% of the economic interest in Galaxy Casino, S.A. (“Galaxy”) in July 2005, gaming and entertainment has become the major business of the Group and this division contributed a turnover of HK\$741,148,000 to the Group for the six months ended 30th June 2006. The loss attributable to shareholders for the six months ended 30th June 2006 included the amortisation of gaming licence of HK\$494,806,000 which arose from the acquisition of Galaxy in July 2005.

INTERIM DIVIDEND

The Board of Directors has resolved not to declare any interim dividend for the six months ended 30th June 2006 (2005: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATION

Turnover and loss attributable to shareholders for the six months ended 30th June 2006 was HK\$1,306 million and HK\$734 million as compared to HK\$540 million and profit of HK\$14 million respectively for the corresponding period last year. The loss attributable to shareholders for the six months ended 30th June 2006 included the amortisation of gaming licence of HK\$495 million which arose from the acquisition of 88.1% of the voting shares carrying 97.9% of the economic interest in Galaxy in July 2005, and net of pre-opening expenses of HK\$87 million. Following the acquisition, gaming and entertainment has become the major business of the Group and this division contributed a turnover of HK\$741 million to the Group for the six months ended 30th June 2006. The Board of Directors has resolved not to pay any interim dividend for the six months ended 30th June 2006.

Set out below is the segment analysis of the Group's operating result for the six months ended 30th June 2006:

	Gaming and entertainment <i>HK\$'M</i>	Construction materials <i>HK\$'M</i>	Corporate <i>HK\$'M</i>	2006 <i>HK\$'M</i>	2005 <i>HK\$'M</i>
Company and subsidiaries:					
Operating profit/(loss)	(543)	6	74	(463)	9
Jointly controlled entities and associates:					
Share of profits less losses before tax	—	18	—	18	10
Depreciation and amortisation	502	62	—	564	56
Non-recurring items	87	—	(20)	67	—
EBITDA excluding non-recurring items	46	86	54	186	75

GAMING AND ENTERTAINMENT DIVISION

Overview

The Macau gaming market continued to record another period of double digit growth in the first half of 2006. Macau's net gaming wins increased 14% when compared to the previous corresponding period to HK\$24 billion in the first half of 2006. The total net gaming wins at Galaxy's city club casinos increased by 15% to HK\$2.3 billion for the first half of 2006 which represented a market share of 9% of the total market.

During the first half of 2006, Galaxy opened three additional city club casinos and continued with the development of StarWorld Hotel and Cotai Mega Resort. Galaxy's net wins were increased from HK\$840 million in the first quarter to HK\$1,437 million in the second quarter of 2006, and our market share was 7% for the first quarter of 2006 and 12% for the second quarter of 2006. For the first six months of 2006, Galaxy's average win per table per day was HK\$81,000 with average win per VIP table per day and per mass table per day at HK\$203,000 and HK\$21,000, respectively.

After Grand Waldo Casino's soft launching at end of May 2006, Galaxy had four city club casinos in operation starting in the month of June 2006. For the month of June 2006, Galaxy recorded a net gaming win of HK\$737 million representing 19% market share. Galaxy's net gaming win continued to climb reaching HK\$816 million representing 19% market share and HK\$894 million representing 20% market share in July 2006 and August 2006, respectively.

After deducting the Macau office overhead expenses of HK\$52 million and before the deduction of pre-opening expenses in relation to the development of StarWorld, Cotai Mega Resort and the new city club casinos of HK\$87 million, this division recorded an EBITDA of HK\$46 million for the first half of 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

StarWorld

StarWorld, Galaxy's first flagship casino, hotel and entertainment complex, has been completed and will shortly commence operation. The total project cost is approximately HK\$2.95 billion including all fitting upgrades and additional gaming equipment costs. StarWorld has been specifically designed and decorated to appeal to the tastes and preferences of the booming Chinese gaming market. With the opening of StarWorld, Galaxy is poised for further explosive growth. StarWorld's spectacular external lighting will change the Macau skyline forever and ensure that StarWorld is a "must-see" casino for all visitors to Macau.

StarWorld is strategically located in downtown Macau and is at the epi-centre of the Macau gaming hub. With StarWorld's unique U-Shaped hotel configuration, all 500 hotel rooms have panoramic water views.

Encompassed within the StarWorld complex is: 16,500m² of gaming space with 290 gaming tables and 371 slot machines, 500 hotel rooms, a top-end luxurious sauna and spa, a gourmet selection of Asian food delights and a dazzling night club. We are confident that StarWorld will offer a world-class service to our customers at an Asian price point.

Cotai Mega Resort

Development of Galaxy's luxurious Cotai Mega Resort is well under way and the initial development is scheduled to open in 2008. Included within this development is: 1,500 hotel rooms, 25,000m² of gaming space with 600 gaming tables and 1,000 slot machines. Additional facilities include extensive spa, sauna and leisure facilities, an Asian paradise of gourmet food with in-excess of 20 restaurants, a range of selected specialty retail and extensive water entertainment features.

By 2012 Galaxy's Cotai Mega Resort will be expanded to include: six to eight various star-rated hotels with up to 12,000 rooms, 1,500 gaming tables, 3,000 slot machines, extensive high-end retails and multiple function and convention facilities.

Galaxy's Cotai development site is 4,700,000 sq ft in size, making it one of Macau's single largest development sites. This vast piece of land ensures Galaxy has the flexibility to grow and expand as business opportunities continue to evolve. Being the world's largest gaming market, Macau continues to experience the world's fastest growth rate in gaming revenue.

Galaxy City Club Casinos

Galaxy's city club casinos have experienced significant growth over the past six months. During this period three additional city club casinos have been opened. With Rio Casino opened in late February, President Casino opened in late April, and Grand Waldo Casino had its soft opening in late May, Galaxy's gaming tables have grown from 63 tables to 396 tables and slot machines have grown from 75 slots to 559 slots.

The operations of the city club casinos have continued to improve since the first half of 2006. The three new city club casinos, combined with Galaxy's original city club casino, Waldo Casino, have helped Galaxy to grasp a market share of 19% in the month of June.

MANAGEMENT DISCUSSION AND ANALYSIS

CONSTRUCTION MATERIALS DIVISION

Overview

Business environment for construction materials during the period remains highly competitive. Notwithstanding such a tough environment, the division has managed to achieve a turnover at a similar level as that of last year, and through efforts in cost savings opportunities to enhance our competitiveness, achieved a further improvement in profit margin.

Construction Materials Business in Hong Kong and Macau

In August 2006, the Group acquired 80% interest in Tarmac Asphalt Hong Kong Limited ("Tarmac Asphalt"). Since then, Tarmac Asphalt has become a wholly owned subsidiary of the Group. The acquisition provides an opportunity for the Group to increase its equity interest in and control over Tarmac Asphalt which broadens the earning base of the Group's construction materials division.

The market in Macau remained very active during the period. The division's Macau operation established last year has recorded a satisfactory result for the period and the division is considering expanding further the operation to cope with the increasing market demand in the area.

Construction Materials Business in the Mainland

The division's alliance with strategic partners on various joint ventures in the Mainland for the manufacture and sale of ground granulated blastfurnace slag (GGBS) has proven to be very successful. All the slag joint ventures have provided a satisfactory profit contribution to the division during the period. Further expansions on the production capacity of these joint ventures are in progress and it is envisaged that our division would become one of the major slag producers across the country.

The performance of the division's cement joint venture in Kunming has continued to provide good profit contribution to the division. The local market demand for quality construction materials remains high. Our joint venture with Kunming Steel Group will enable us to be well positioned to capitalise on the growing market in the western region of the Mainland in the near future.

LIQUIDITY AND FINANCIAL RESOURCES

The financial position of the Group has remained strong during the period. The shareholders' funds as at 30th June 2006 was HK\$14,231 million, a decrease of approximately 5% over the balance as at 31st December 2005 of HK\$14,932 million while the Group's total assets employed increased to HK\$27,342 million as compared to HK\$26,388 million as at 31st December 2005.

The Group continues to maintain a strong cash position. As at 30th June 2006, total cash and bank balances were HK\$5,139 million as compared to HK\$5,068 million as at 31st December 2005.

As at 30th June 2006, the Group's total indebtedness was HK\$7,596 million as compared to HK\$7,587 million as at 31st December 2005. The total indebtedness of the Group mainly comprises bank loans, fixed rate notes, guaranteed notes and other obligations which are largely denominated in Hong Kong Dollar and United States Dollar. The Group's borrowings are closely monitored to ensure a smooth repayment schedule to maturity.

The Group's liquidity position remains strong and the Group is confident that sufficient resources could be secured to meet its commitments, working capital requirements and future assets acquisitions.

GEARING RATIO

The gearing ratio, defined as the ratio of total loans outstanding less cash balances to total assets (excludes cash balances), was maintained at a satisfactory level of 11% as at 30th June 2006 as compared to 12% as at 31st December 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

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 match the currency of the Group's liabilities with that of the Group's income, which are considered necessary for the Group's treasury management activities.

CHARGES ON GROUP ASSETS

Leasehold land with net book values of HK\$219 million (31st December 2005: HK\$221 million) and bank deposits of HK\$264 million (31st December 2005: HK\$259 million) have been pledged to secure banking facilities.

CONTINGENT LIABILITIES

The Company has executed guarantees in favour of banks in respect of facilities granted to subsidiaries amounting to HK\$214 million (31st December 2005: HK\$262 million), of which HK\$162 million (31st December 2005: HK\$124 million) have been utilised.

EMPLOYEES AND REMUNERATION POLICY

As at 30th June 2006, the Group, excluding associated companies and jointly controlled entities, employed around 8,000 employees in Hong Kong, Macau and Mainland China. Employee costs, excluding Directors' emoluments, amounted to HK\$284 million.

The Group recruits and promotes individuals based on their competencies, merit and development potential and ensures remuneration packages are competitive, fair and subject to regular review. The Group has implemented a share option scheme for executives from 1991 following approval by its shareholders for the purpose of providing competitive package and long term retention of management talents. Likewise in Macau and Mainland China, employees' remuneration is commensurate with market levels with emphasis on provision of training and development opportunities.

AUDITORS' INDEPENDENT REVIEW REPORT

To the Board of Directors of Galaxy Entertainment Group Limited

(Incorporated in Hong Kong with limited liability)

Introduction

We have been instructed by the Company to review the interim financial information set out on pages 9 to 23.

Respective Responsibilities of Directors and Auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of the interim financial information to be in compliance with Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial information is the responsibility of, and has been approved by, the Directors.

It is our responsibilities to form an independent conclusion, based on our review, on the interim financial information and to report our conclusion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review Work Performed

We conducted our review in accordance with the Statement of Auditing Standard 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of the management and applying analytical procedures to the interim financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial information.

Review Conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial information for the six months ended 30th June 2006.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 13th September 2006

CONSOLIDATED PROFIT AND LOSS STATEMENT (UNAUDITED)

For the six months ended 30th June 2006

	<i>Note</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Turnover	4 & 5	1,306,321	539,572
Cost of sales		(1,207,448)	(530,800)
Gross profit		98,873	8,772
Other operating income		135,825	31,446
Administrative expenses		(193,439)	(30,386)
Other operating expenses		(504,922)	(534)
Operating (loss)/profit	4 & 6	(463,663)	9,298
Finance costs	7	(288,786)	(5,998)
Share of profits less losses of			
Jointly controlled entities		17,112	7,945
Associated companies		504	1,492
(Loss)/profit before taxation		(734,833)	12,737
Taxation	8	(1,449)	(280)
(Loss)/profit for the period		(736,282)	12,457
Attributable to:			
Shareholders		(734,452)	14,306
Minority interests		(1,830)	(1,849)
		(736,282)	12,457
Interim dividend	9	—	—
(Loss)/earnings per share	10	<i>HK cents</i>	<i>HK cents</i>
Basic		(22.3)	1.1
Diluted		N/A	1.1

CONSOLIDATED BALANCE SHEET (UNAUDITED)

As at 30th June 2006

		30th June 2006 HK\$'000	Restated 31st December 2005 HK\$'000
	Note		
ASSETS			
Non-current assets			
Property, plant and equipment		2,380,119	1,187,663
Investment properties		63,000	63,000
Leasehold land and land use rights		1,590,879	1,638,620
Intangible assets		16,002,906	16,493,230
Jointly controlled entities		315,401	279,432
Associated companies		21,986	21,346
Non-current investments		211,119	66,101
Derivative financial instruments		2,325	—
Deferred taxation assets		1,262	—
Other non-current assets	12	468,424	479,019
		21,057,421	20,228,411
Current assets			
Inventories		97,763	86,971
Debtors and prepayments	13	1,007,491	933,791
Tax recoverable		848	1,039
Other investments		39,067	69,495
Cash and bank balances		5,139,100	5,068,214
		6,284,269	6,159,510
Total assets		27,341,690	26,387,921
EQUITY			
Share capital	14	329,485	329,058
Reserves		13,901,694	14,603,396
Shareholders' funds		14,231,179	14,932,454
Minority interests		485,731	491,910
Total equity		14,716,910	15,424,364
LIABILITIES			
Non-current liabilities			
Borrowings	15	7,085,145	4,643,355
Deferred taxation liabilities		1,778,531	1,778,531
Provisions		150,350	144,360
Other non-current liabilities		180,185	30,618
		9,194,211	6,596,864
Current liabilities			
Creditors and accruals	16	2,916,434	1,421,429
Current portion of borrowings	15	511,001	2,943,806
Taxation payable		3,134	1,458
		3,430,569	4,366,693
Total liabilities		12,624,780	10,963,557
Total equity and liabilities		27,341,690	26,387,921

CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30th June 2006

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash from operating activities	1,147,851	18,305
Net cash used in investing activities	(1,044,181)	(87,566)
Net cash (used in)/from financing activities	(10,421)	1,178,430
Net increase in cash and bank balances	93,249	1,109,169
Change in exchange rates	(22,363)	242
Cash and bank balances at beginning of period	5,068,214	170,952
Cash and bank balances at end of period	5,139,100	1,280,363

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30th June 2006

	Share capital HK\$'000	Other reserves HK\$'000	Revenue reserve HK\$'000	Shareholders' funds HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 31st December 2005	329,058	11,485,033	3,118,363	14,932,454	491,910	15,424,364
Changes in exchange rates	—	16,113	—	16,113	(87)	16,026
Fair value gains on cash flow hedges	—	2,325	—	2,325	—	2,325
Net income recognised directly in equity	—	18,438	—	18,438	(87)	18,351
Issue of shares upon exercise of share options	427	12,379	—	12,806	—	12,806
Fair value of share options	—	1,933	—	1,933	—	1,933
Acquisition of minority interests	—	—	—	—	(3,286)	(3,286)
Dividend paid to minority shareholders	—	—	—	—	(976)	(976)
Transfer of reserves	—	(412)	412	—	—	—
Loss for the period	—	—	(734,452)	(734,452)	(1,830)	(736,282)
	427	13,900	(734,040)	(719,713)	(6,092)	(725,805)
At 30th June 2006	329,485	11,517,371	2,384,323	14,231,179	485,731	14,716,910
At 31st December 2004	129,648	558,552	737,200	1,425,400	39,025	1,464,425
Changes in fair value of available-for-sale investments	—	(1,806)	—	(1,806)	—	(1,806)
Changes in exchange rates	—	—	244	244	—	244
Net income recognised directly in equity	—	(1,806)	244	(1,562)	—	(1,562)
Acquisition of subsidiaries	—	—	—	—	368	368
Issue of new shares	14,600	1,123,210	—	1,137,810	—	1,137,810
Issue of shares upon exercise of share options	139	532	—	671	—	671
Profit for the period	—	—	14,306	14,306	(1,849)	12,457
Dividends	—	—	(12,972)	(12,972)	—	(12,972)
	14,739	1,123,742	1,334	1,139,815	(1,481)	1,138,334
At 30th June 2005	144,387	1,680,488	738,778	2,563,653	37,544	2,601,197

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The interim financial information has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, derivative financial instruments and other investments, and in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

Except as described below, the accounting policies and methods of computation used in the preparation of the interim financial information are consistent with those used and as described in the annual financial statements for the year ended 31st December 2005.

The Group adopted the following new standards, amendments to standards and interpretations of Hong Kong Financial Reporting Standards which become effective from 1st January 2006. The changes to the accounting policies of the Group and their effects are set out below.

(a) Investments in finance leases

Assets leased to third parties under agreements that transfer substantially all the risk and rewards incident to ownership of the relevant assets to the lessees are classified as investments in finance leases. The present value of the lease payments is recognised as a receivable in the balance sheet. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Gross earnings under finance leases are recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return on the net investment in the leases.

For the financial period ended 30 June 2006, Hong Kong (IFRIC) Interpretation (“HK(IFRIC)-Int”) 4 “Determining whether an Arrangement contains a Lease” becomes effective, under which the Group has reassessed all the existing arrangements to determine whether they contain a lease based on the substance of the arrangement. As a result of this reassessment, the arrangements for certain plant and equipment and computer software constitute leases under HK(IFRIC)-Int 4. Accordingly, property, plant and equipment and intangible assets with net book amounts of HK\$36,842,000 and HK\$1,139,000, respectively, as at 31 December 2005 have been reclassified as investments in finance leases. The above change however does not have any impact to the results of the Group and therefore a prior year adjustment is not required.

(b) Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The full fair value of hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedge item is more than twelve months, and as a current asset or liability, if the remaining maturity of the hedged item is less than twelve months. Trading derivatives are classified as a current asset or liability.

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D)

(b) Derivative financial instruments and hedging activities (Cont'd)

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss statement.

Amounts accumulated in equity are recycled in the profit and loss statement in the periods when the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

(c) Jointly controlled operations

Interests in unincorporated jointly controlled operations are accounted for using the proportionate consolidation method under which the share of individual assets and liabilities, income and expenses and cash flows of jointly controlled operations is included in the relevant components of the consolidated financial statements.

2. FINANCIAL RISK MANAGEMENT

All aspects of financial risk management objectives and policies of the Group are consistent with those disclosed in the financial statements for the year ended 31st December 2005.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and assumptions applied in the preparation of the interim financial information are consistent with those used in the financial statements for the year ended 31st December 2005.

4. SEGMENT INFORMATION

The Group is principally engaged in the operation in casino games of chance or games of other forms, 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, tax recoverable and cash and bank balances. Segment liabilities comprise mainly creditors, accruals and provisions. There are no sales or trading transaction between the business segments.

NOTES TO THE FINANCIAL STATEMENTS

4. SEGMENT INFORMATION (CONT'D)

A summary of the business segments is set out as follows:

	Gaming and entertainment <i>HK\$'000</i>	Construction materials <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six months ended 30th June 2006				
Turnover	741,148	565,173	—	1,306,321
Operating profit/(loss)	(543,245)	5,818	73,764	(463,663)
Finance costs				(288,786)
Share of profits less losses of				
Jointly controlled entities	—	17,112	—	17,112
Associated companies	—	504	—	504
Loss before taxation				(734,833)
Taxation				(1,449)
Loss for the period				(736,282)
Capital expenditure	1,216,141	36,410	3,912	1,256,463
Depreciation	6,189	42,715	451	49,355
Amortisation	495,497	19,458	—	514,955
Impairment of property, plant and equipment	—	1,294	—	1,294
Impairment of available-for-sale financial assets	—	—	4,237	4,237
Six months ended 30th June 2005				
Turnover	—	539,572	—	539,572
Operating profit	—	4,465	4,833	9,298
Finance costs				(5,998)
Share of profits less losses of				
Jointly controlled entities	—	7,945	—	7,945
Associated companies	—	1,492	—	1,492
Profit before taxation				12,737
Taxation				(280)
Profit for the period				12,457
Capital expenditure	—	24,465	—	24,465
Depreciation	—	36,440	—	36,440
Amortisation	—	19,307	—	19,307

NOTES TO THE FINANCIAL STATEMENTS

4. SEGMENT INFORMATION (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 30th June 2006				
Segment assets	19,732,365	1,790,088	5,481,850	27,004,303
Jointly controlled entities	—	315,401	—	315,401
Associated companies	—	21,986	—	21,986
Total assets				27,341,690
Segment liabilities	2,590,943	559,883	9,473,954	12,624,780
As at 31st December 2005				
Segment assets	18,808,799	1,842,757	5,435,587	26,087,143
Jointly controlled entities	—	279,432	—	279,432
Associated companies	—	21,346	—	21,346
Total assets				26,387,921
Segment liabilities	900,262	570,923	9,492,372	10,963,557

A summary of the geographical segments is set out as follows:

	Turnover <i>HK\$'000</i>	Capital expenditure <i>HK\$'000</i>	Total assets <i>HK\$'000</i>
At 30th			
Six months ended 30th June 2006			
Hong Kong	210,133	18,312	962,388
Macau	842,657	1,236,146	25,100,200
Mainland China	253,531	2,005	1,279,102
	1,306,321	1,256,463	27,341,690
At 31st			
Six months ended 30th June 2005			
Hong Kong	235,831	6,579	1,078,696
Macau	—	—	24,094,083
Mainland China	303,741	17,886	1,215,142
	539,572	24,465	26,387,921

NOTES TO THE FINANCIAL STATEMENTS

5. TURNOVER

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Sales of construction materials	565,173	539,572
Revenues from gaming operations		
Net gaming wins	662,871	—
Contributions (<i>note a</i>)	72,845	—
Tips received	5,432	—
	1,306,321	539,572

- (a) In respect of the operations of certain city club casinos (the “City Club Casinos”), the Group entered into 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”) under which the service providers (the “Service Providers”) undertake for the provision of a steady flow of customers to the City Club 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. Revenues attributable to the Group are determined by reference to various rates on the net gaming wins. After special gaming tax and funds to the Macau Government, the remaining net gaming wins and revenues from gaming operations less all the relevant operating and administrative expenses belong to the Service Providers.

The Group considers recognising revenue from the City Club Casinos based on the agreed rates on the net gaming wins as appropriate after analysing the risks and rewards attributable to the Group. In addition, given the risks related to these leases and certain operating and administrative expenses are indemnified by the Service Providers, these expenses are not recognised as expenses of the Group as such.

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

	2006 <i>HK\$'000</i>
Net gaming wins	1,404,995
Tips received and other income	12,920
Interest income	9,361
	1,427,276
Operating expenses	
Special gaming tax and funds to the Macau Government	(565,832)
Commission and allowances to promoters	(544,102)
Staff costs	(124,591)
Administrative and others	(39,667)
	(1,274,192)
Contribution from gaming operations	153,084
Net entitlements of the Service Providers	(80,239)
Contributions attributable to the Group	72,845

NOTES TO THE FINANCIAL STATEMENTS

6. OPERATING (LOSS)/PROFIT

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating (loss)/profit is stated after crediting:		
Rental income	6,794	6,759
Interest income		
Loan to a related company	3,371	—
Loans to jointly controlled entities	1,101	1,096
Bank deposits	75,179	4,853
Deferred receivable	337	383
Administrative fee	4,794	—
Realised gain on available-for-sale financial assets	3,302	—
Foreign exchange gain	1,751	—
Dividend income from unlisted investments	—	12,721
Fair value gain on listed investments	—	81
Write back of stock provision	—	1,332
Profit on disposal of property, plant and equipment	—	313

and after charging:

Depreciation	49,355	36,440
Amortisation		
Quarry site development	941	932
Overburden removal costs	7,938	7,796
Gaming licence	494,806	—
Computer software	269	—
Quarry site improvements	7,570	7,560
Leasehold land and land use rights (<i>note</i>)	3,431	3,019
Operating lease rental		
Land and buildings	8,917	12,314
Plant and machinery	1,779	—
Royalty	3,929	2,792
Loss on disposal of property, plant and equipment	17	—
Impairment of available-for-sale financial assets	4,237	—
Cost of inventories sold	517,967	487,076

Note: Amortisation of leasehold land and land use rights is stated after amount capitalised in assets under construction of HK\$58,162,000 (2005: nil).

NOTES TO THE FINANCIAL STATEMENTS

7. FINANCE COSTS

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest expenses		
Bank loans and overdrafts	15,036	5,173
Fixed rate notes wholly repayable within five years	72,200	—
Guaranteed floating rate notes wholly repayable within five years	101,799	—
Guaranteed fixed rate notes not wholly repayable within five years	133,675	—
Obligations under finance leases wholly payable within five years	28	—
Other borrowing costs	4,238	825
	326,976	5,998
Amount capitalised in assets under construction	(38,190)	—
	288,786	5,998

8. TAXATION

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current taxation		
Hong Kong profits tax	—	78
Mainland China profits tax	934	202
Macau Complimentary tax	1,777	—
Deferred taxation	(1,262)	—
	1,449	280

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) 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.

Share of taxation of associated companies and jointly controlled entities for the six months ended 30th June 2006 are HK\$250,000 (2005: HK\$184,000) and HK\$336,000 (2005: HK\$274,000) respectively and are included in the profit and loss statement as share of profits less losses of associated companies and jointly controlled entities.

9. INTERIM DIVIDEND

The Board of Directors has resolved not to declare any interim dividend for the six months ended 30th June 2006 (2005: nil).

NOTES TO THE FINANCIAL STATEMENTS

10. (LOSS)/EARNINGS PER SHARE

The calculation of basic earnings per share is based on the loss attributable to shareholders of HK\$734,452,000 (2005: profit of HK\$14,306,000) and the weighted average number of 3,291,087,260 shares (2005: 1,345,913,125 shares) in issue during the period.

The diluted loss per share for 2006 is not presented since the exercise of the outstanding share options would not have a dilutive effect on the loss per share. The diluted earnings per share for 2005 was calculated based on the profit attributable to shareholders of HK\$14,306,000 and the weighted average number of 1,345,913,125 shares in issue plus 18,178,485 potential shares arising from share options.

11. CAPITAL EXPENDITURE

For the six months ended 30th June 2006, the Group incurred HK\$1,237 million (2005: HK\$24.3 million) on property, plant and equipment, HK\$4.7 million on intangible assets (2005: nil), HK\$13.8 million (2005: nil) on leasehold land and land use rights and HK\$0.9 million (2005: HK\$0.3 million) on deferred expenditure. The Group has disposed of property, plant and equipment with a net book amount of HK\$8.2 million (2005: HK\$1.2 million).

12. OTHER NON-CURRENT ASSETS

	30th June	31st December
	2006	2005
	HK\$'000	<i>HK\$'000</i>
Deferred expenditure		
Overburden removal costs	76,912	83,920
Quarry site development	11,633	12,459
	88,545	96,379
Quarry site improvements	107,930	120,930
Deferred receivable	7,928	2,557
Restricted bank deposits	264,021	259,153
	468,424	479,019

13. DEBTORS AND PREPAYMENTS

	30th June	31st December
	2006	2005
	HK\$'000	<i>HK\$'000</i>
Trade debtors, net of provision	487,854	497,406
Amounts due from jointly controlled entities	164,618	190,266
Other receivables, net of provision	250,846	157,788
Prepayments	104,173	88,331
	1,007,491	933,791

NOTES TO THE FINANCIAL STATEMENTS

13. DEBTORS AND PREPAYMENTS (CONT'D)

The Group has established credit policies, which follow local industry standard. 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 review by management.

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

	30th June 2006 HK\$'000	31st December 2005 HK\$'000
Within one month	102,699	130,362
Two to three months	153,973	152,782
Four to six months	50,249	98,995
Over six months	180,933	115,267
	487,854	497,406

14. SHARE CAPITAL

	Ordinary shares of HK\$0.10 each	<i>HK\$'000</i>
Authorised:		
At 1st January 2005 and 30th June 2005	3,888,000,000	388,800
Addition	3,000,000,000	300,000
At 1st January 2006 and 30th June 2006	6,888,000,000	688,800
Issued and fully paid:		
At 1st January 2005	1,296,475,563	129,648
Exercise of share options	1,390,000	139
Issue of new shares	146,000,000	14,600
At 30th June 2005	1,443,865,563	144,387
At 1st January 2006	3,290,579,361	329,058
Exercise of share options	4,270,000	427
At 30th June 2006	3,294,849,361	329,485

NOTES TO THE FINANCIAL STATEMENTS

14. SHARE CAPITAL (CONT'D)

The Company operates a share option scheme under which options to subscribe for ordinary shares in the Company are granted to selected executives. During the period, no new options were granted (2005: nil) and options for 4,270,000 shares (2005: 1,390,000 shares) were exercised and options for 600,000 shares (2005: nil) were lapsed. At 30th June 2006, outstanding options granted under the scheme are as follows:

Exercise period	Exercise price HK\$	Number of share options	
		30th June 2006	31st December 2005
Directors			
20th May 1999 to 19th May 2008	0.5333	2,500,000	2,500,000
30th December 2000 to 29th December 2009	0.5216	3,400,000	3,400,000
1st March 2004 to 28th February 2013	0.5140	4,280,000	4,280,000
22nd October 2005 to 21st October 2011	4.5900	13,200,000	13,200,000
22nd October 2006 to 21st October 2011	4.5900	3,290,000	3,290,000
Employees and others			
20th May 1999 to 19th May 2008	0.5333	400,000	700,000
30th December 2000 to 29th December 2009	0.5216	228,000	1,298,000
1st March 2004 to 28th February 2013	0.5140	280,000	580,000
22nd October 2005 to 21st October 2011	4.5900	16,400,000	19,400,000
22nd October 2006 to 21st October 2011	4.5900	5,060,000	5,260,000
		49,038,000	53,908,000

15. BORROWINGS

	30th June 2006 HK\$'000	31st December 2005 HK\$'000
Bank loans		
Secured	232,400	232,400
Unsecured	403,493	244,000
	635,893	476,400
Other borrowings		
Fixed rate notes	2,453,402	2,584,188
Guaranteed notes	4,506,643	4,526,265
Bank loans and other borrowings	7,595,938	7,586,853
Obligations under finance leases	208	308
Total borrowings	7,596,146	7,587,161
Current portion included in current liabilities	(511,001)	(2,943,806)
	7,085,145	4,643,355

NOTES TO THE FINANCIAL STATEMENTS

16. CREDITORS AND ACCRUALS

	30th June	31st December
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade creditors	1,011,448	393,049
Other creditors	346,420	348,778
Chips issued	1,138,580	345,924
Amounts due to jointly controlled entities	14,560	14,397
Loan from minority interests	85,080	94,288
Accrued operating expenses	316,368	219,671
Deposits received	3,978	5,322
	2,916,434	1,421,429

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

	30th June	31st December
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one month	788,489	245,230
Two to three months	136,285	49,207
Four to six months	35,386	41,135
Over six months	51,288	57,477
	1,011,448	393,049

17. CAPITAL COMMITMENTS

	30th June	31st December
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted but not provided for	2,106,201	740,444
Authorised but not contracted for	117,097	2,741,982

18. POST BALANCE SHEET EVENT

On 11th August 2006, the Group acquired 80% of the equity interest in Tarmac Asphalt Hong Kong Limited ("Tarmac Asphalt") for a cash consideration of HK\$87.4 million. Following the acquisition, the Group's interest in Tarmac Asphalt was increased from 20% to 100%. As a result, Tarmac Asphalt ceased to be an associated company and became a wholly owned subsidiary of the Group.

DISCLOSURE OF INTERESTS

DIRECTORS' INTERESTS IN SECURITIES AND SHARE OPTIONS

As at 30th June 2006, the interests of each director in the shares, underlying shares and debentures of the Company, and the details of any right to subscribe for shares of the Company and of the exercise of such rights, as recorded in the register required to be kept under section 352 of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Rules Governing the Listing of Securities on the Stock Exchange, were as follows:

(a) Ordinary Shares (including underlying shares)

Name	Number of Shares				Total	Percentage of Issued Share Capital
	Personal Interests	Family Interests	Corporate Interests	Other Interests		
Lui Che Woo	17,187,632	2,181,518	80,693,238 ⁽¹⁾	1,905,118,394 ⁽²⁾	2,005,180,782	60.86
Francis Lui Yiu Tung	11,498,896	—	436,753,661 ⁽³⁾	1,905,118,394 ⁽²⁾	2,353,370,951	71.43
Chan Kai Nang	380,000	—	—	—	380,000	0.01
Joseph Chee Ying Keung	2,720,000	—	—	—	2,720,000	0.08
William Lo Chi Chung	1,926,000	—	—	—	1,926,000	0.06
Paddy Tang Lui Wai Yu	8,939,722	—	—	1,905,118,394 ⁽²⁾	1,914,058,116	58.09
Charles Cheung Wai Bun	582,533	—	—	—	582,533	0.02
Moses Cheng Mo Chi	500,000	—	—	—	500,000	0.02
James Ross Ancell	250,000	—	—	—	250,000	0.01
William Yip Shue Lam	250,000	—	—	—	250,000	0.01

(b) Share Options

As at 30th June 2006, the particulars of the options held by each of the directors of the Company, the employees of the Company in aggregate and other participants granted under the existing Share Option Scheme of the Company or under any other share option schemes of the Company, were as follows:

Name	Date of grant	Number of Options			At 30th June 2006	Exercise price (HK\$)	Exercise period
		At 1st January 2006	Exercised during the period	Lapsed during the period			
Lui Che Woo	20th May 1998	1,500,000	—	—	1,500,000	0.5333	20th May 1999–19th May 2008
	30th Dec 1999	1,800,000	—	—	1,800,000	0.5216	30th Dec 2000–29th Dec 2009
	28th Feb 2003	2,000,000	—	—	2,000,000	0.5140	1st Mar 2004–28th Feb 2013
	21st Oct 2005	2,700,000	—	—	2,700,000	4.5900	22nd Oct 2005–21st Oct 2011
	21st Oct 2005	590,000	—	—	590,000	4.5900	22nd Oct 2006–21st Oct 2011
Francis Lui Yiu Tung	20th May 1998	1,000,000	—	—	1,000,000	0.5333	20th May 1999–19th May 2008
	30th Dec 1999	1,600,000	—	—	1,600,000	0.5216	30th Dec 2000–29th Dec 2009
	28th Feb 2003	1,870,000	—	—	1,870,000	0.5140	1st Mar 2004–28th Feb 2013
	21st Oct 2005	6,000,000	—	—	6,000,000	4.5900	22nd Oct 2005–21st Oct 2011
	21st Oct 2005	580,000	—	—	580,000	4.5900	22nd Oct 2006–21st Oct 2011
Chan Kai Nang	28th Feb 2003	110,000	—	—	110,000	0.5140	1st Mar 2004–28th Feb 2013
	21st Oct 2005	270,000	—	—	270,000	4.5900	22nd Oct 2006–21st Oct 2011
Joseph Chee Ying Keung	21st Oct 2005	270,000	—	—	270,000	4.5900	22nd Oct 2006–21st Oct 2011

DISCLOSURE OF INTERESTS

DIRECTORS' INTERESTS IN SECURITIES AND SHARE OPTIONS (CONT'D)

(b) Share Options (Cont'd)

Name	Date of grant	Number of Options			At 30th June 2006	Exercise price (HK\$)	Exercise period
		At 1st January 2006	Exercised during the period	Lapsed during the period			
William Lo Chi Chung	21st Oct 2005	1,500,000	—	—	1,500,000	4.5900	22nd Oct 2005–21st Oct 2011
	21st Oct 2005	230,000	—	—	230,000	4.5900	22nd Oct 2006–21st Oct 2011
Paddy Tang Lui Wai Yu	21st Oct 2005	3,000,000	—	—	3,000,000	4.5900	22nd Oct 2005–21st Oct 2011
	21st Oct 2005	400,000	—	—	400,000	4.5900	22nd Oct 2006–21st Oct 2011
Charles Cheung Wai Bun	21st Oct 2005	250,000	—	—	250,000	4.5900	22nd Oct 2006–21st Oct 2011
Moses Cheng Mo Chi	28th Feb 2003	300,000	—	—	300,000	0.5140	1st Mar 2004–28th Feb 2013
	21st Oct 2005	200,000	—	—	200,000	4.5900	22nd Oct 2006–21st Oct 2011
James Ross Ancell	21st Oct 2005	250,000	—	—	250,000	4.5900	22nd Oct 2006–21st Oct 2011
William Yip Shue Lam	21st Oct 2005	250,000	—	—	250,000	4.5900	22nd Oct 2006–21st Oct 2011
Employees	20th May 1998	400,000	—	—	400,000	0.5333	20th May 1999–19th May 2008
	30th Dec 1999	228,000	—	—	228,000	0.5216	30th Dec 2000–29th Dec 2009
	28th Feb 2003	280,000	—	—	280,000	0.5140	1st Mar 2004–28th Feb 2013
	21st Oct 2005	15,900,000	2,600,000 ^(a)	400,000	12,900,000	4.5900	22nd Oct 2005–21st Oct 2011
	21st Oct 2005	4,958,000	—	200,000	4,758,000	4.5900	22nd Oct 2006–21st Oct 2011
Others	20th May 1998	300,000	300,000 ^(b)	—	—	0.5333	20th May 1999–19th May 2008
	30th Dec 1999	1,070,000	1,070,000 ^(c)	—	—	0.5216	30th Dec 2000–29th Dec 2009
	28th Feb 2003	300,000	300,000 ^(c)	—	—	0.5140	1st Mar 2004–28th Feb 2013
	21st Oct 2005	3,500,000	—	—	3,500,000	4.5900	22nd Oct 2005–21st Oct 2011
	21st Oct 2005	302,000	—	—	302,000	4.5900	22nd Oct 2006–21st Oct 2011

Notes:

- The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised during the period was HK\$6.77.
- The closing price of the Company's shares immediately before the date on which the options were exercised during the period was HK\$6.40.
- The options were exercised on the same date and the closing price of the Company's shares immediately before the date on which the options were exercised during the period was HK\$6.60.

Except for the 32,600,000 options granted on 21st October 2005 exercisable within the period from 22nd October 2005 to 21st October 2011 at an exercise price of HK\$4.59 per share, all options referred to above are subject to a one-year vesting period.

No options were granted or cancelled during the period.

The consideration paid by each grantee for each grant of options is HK\$1.00.

DISCLOSURE OF INTERESTS

DIRECTORS' INTERESTS IN SECURITIES AND SHARE OPTIONS (CONT'D)

(c) Debentures

Name	Amount of Debentures		
	Corporate Interests (HK\$)	Other Interests (HK\$)	Total Interests (HK\$)
Lui Che Woo	—	2,320,898,413 ⁽⁴⁾	2,320,898,413
Francis Lui Yiu Tung	50,906,654 ⁽³⁾	2,320,898,413 ⁽⁴⁾	2,371,805,067
Paddy Tang Lui Wai Yu	—	2,320,898,413 ⁽⁴⁾	2,320,898,413

Notes:

- (1) 80,387,837 shares and 305,401 shares in the Company were respectively held by Best Chance Investments Ltd. and Po Kay Securities & Shares Company Limited, both controlled by Dr. Lui Che Woo.
- (2) Two discretionary family trusts both established by Dr. Lui Che Woo as founder were respectively interested in 1,267,165,313 shares and 22,969,034 shares in the Company. K. Wah International Holdings Limited ("KWIH"), a substantial shareholder of the Company listed on the Stock Exchange, was interested in 614,984,047 shares in the Company held by a wholly owned subsidiary of KWIH. KWIH was controlled by one of the said discretionary family trusts.

Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu, as either direct or indirect discretionary beneficiaries of the discretionary family trusts, are deemed to have interest in those shares in the Company interested by the trusts and in those shares in the Company in which KWIH was interested as aforesaid.
- (3) 111,138,039 shares and debentures of the Company in the amount of HK\$50,906,654 were held by Recurrent Profits Limited controlled by Mr. Francis Lui Yiu Tung. 231,615,731 underlying shares of the Company were interested by Top Notch Opportunities Limited ("Top Notch"). 60,000,000 shares and 33,999,891 underlying shares in the Company were interested by Kentlake International Investments Limited ("Kentlake"). Both Top Notch and Kentlake were controlled by Mr. Francis Lui Yiu Tung.
- (4) A discretionary family trust established by Dr. Lui Che Woo as founder was interested in debentures of the Company in the amount of HK\$2,320,898,413. Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu, as either direct or indirect beneficiaries, are deemed to have interest in these debentures.

All the interests stated above represent long positions.

Save as disclosed above, as at 30th June 2006, none of the Directors of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

DISCLOSURE OF INTERESTS

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30th June 2006, the interests of every person (not being a director or chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name	Number of Shares (Long Position)	Percentage of Issued Share Capital	Number of Shares (Short Position)	Percentage of Issued Share Capital
Brightwealth Investments Limited	265,615,622	8.06	265,615,622	8.06
City Lion Profits Corp.	1,160,449,206	35.22	—	—
Davos Investment Holdings Private Limited	265,615,622	8.06	265,615,622	8.06
Guoco Group Limited	265,615,622	8.06	265,615,622	8.06
Guoline Capital Assets Limited	265,615,622	8.06	265,615,622	8.06
Guoline Overseas Limited	265,615,622	8.06	265,615,622	8.06
HL Holdings Sdn Bhd	265,615,622	8.06	265,615,622	8.06
Hong Leong Company (Malaysia) Berhad	265,615,622	8.06	265,615,622	8.06
Hong Leong Investment Holdings Pte. Ltd.	265,615,622	8.06	265,615,622	8.06
HSBC International Trustee Limited	1,905,132,394 ^(Note)	57.82	—	—
Kwek Holdings Pte Ltd	265,615,622	8.06	265,615,622	8.06
Kwek Leng Kee	265,615,622	8.06	265,615,622	8.06
K. Wah International Holdings Limited	614,984,047	18.67	—	—
Pedro Ho On Chun	176,250,301	5.35	—	—
Quek Leng Chan	265,615,622	8.06	265,615,622	8.06
Top Notch Opportunities Limited	231,615,731	7.03	—	—

Note: HSBC International Trustee Limited is the trustee of the discretionary family trusts established by Dr. Lui Che Woo as founder, which are interested in 1,905,118,394 shares in the Company.

There was duplication of interest of:

- (i) 1,905,118,394 shares and debentures of the Company in the amount of HK\$2,320,898,413 between Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu. Among these shares,
 - a. 614,984,047 shares were also interested by K. Wah International Holdings Limited;
 - b. 1,160,449,206 shares were also interested by City Lion Profits Corp.;
- (ii) 231,615,731 underlying shares in the Company between Mr. Francis Lui Yiu Tung and Top Notch Opportunities Limited;
- (iii) 60,000,000 shares and 33,999,891 underlying shares in the Company between Mr. Francis Lui Yiu Tung and Mr. Pedro Ho On Chun;
- (iv) 265,615,622 shares in the Company (both long and short positions) between Brightwealth Investments Limited, Davos Investment Holdings Private Limited, Guoco Group Limited, Guoline Capital Assets Limited, Guoline Overseas Limited, HL Holdings Sdn Bhd, Hong Leong Company (Malaysia) Berhad, Hong Leong Investment Holdings Pte. Ltd., Kwek Holdings Pte Ltd, Mr. Kwek Leng Kee and Mr. Quek Leng Chan.

Save as disclosed above, as at 30th June 2006, the Company had not been notified by any persons who had interests or short positions in the shares or underlying shares in the Company which would fall to be disclosed to the Company under the SFO.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the six months ended 30th June 2006. Neither the Company nor any of its subsidiaries have purchased or sold any of the Company's shares during the six months ended 30th June 2006.

AUDIT COMMITTEE

The Group's interim results for the six months ended 30th June 2006 have been reviewed by the Audit Committee of the Company and by the Company's Auditors, PricewaterhouseCoopers, in accordance with SAS700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. The Auditor's independent review report is included in this Interim Report 2006 to shareholders.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited as its code of conduct for securities transactions by Directors. The Company, having made specific enquiry of all Directors, confirms that our Directors have complied with the required standard set out in the Model Code and the Company's own code.

CORPORATE GOVERNANCE

Throughout the six months ended 30th June 2006, the Company has met the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules except for 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 every three years as a matter of actual practice and the Group is best served by not requiring the Chairman and the Managing Director to retire by rotation as their continuity in office is of considerable benefit to and their leadership, vision and profound knowledge in the widespread geographical business of the Group is an asset of the Company. The Remuneration Committee of the Company with appropriate composition and terms of reference was established on 27th January 2006.

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

Hong Kong, 13th September 2006