

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 HK\$'M	Construction materials HK\$'M	Corporate HK\$'M	2006 HK\$'M	2005 HK\$'M
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.

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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.

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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.

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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.