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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)

Connected Transaction

Formation of Contractor for Contract for the Rehabilitation of Lam Tei Quarry

The Contractor, an indirect associated company of the Company, has been awarded a contract to rehabilitate Lam Tei Quarry.

The formation of the Contractor to tender for the Rehabilitation Contract constituted a connected transaction for the Company under Rule 14A.10 of the Listing Rules.

As the relevant percentage ratios in respect of the Group's total capital commitment in the Contractor are more than 0.1% but less than 2.5%, the formation of the Contractor is subject only to the reporting and announcement requirements under Rule 14A.32 of the Listing Rules and is exempted from the independent shareholders' approval requirements.

The Board is pleased to announce that on 3 October 2006, a contract for the rehabilitation of Lam Tei Quarry was entered into between the Government and the Contractor.

The formation of the Contractor to tender for the Rehabilitation Contract constituted a connected transaction for the Company under Rule 14A.10 of the Listing Rules by reason of the fact that Asia Stone is a subsidiary of a substantial shareholder in a subsidiary of the Company.

JOINT VENTURE

Summarised below are the principal terms of the JV Agreement:

(i) Parties to the JV Agreement:

- (1) Asia Stone
- (2) K. Wah
- (3) the Contractor

(ii) Subject Matter:

The subject matter of the JV Agreement is the ownership and operation of the Contractor. Pursuant to the JV Agreement, K. Wah is the legal and beneficial owner of 36.5% of the Contractor and Asia Stone owns 63.5%.

(iii) Capital Commitment:

The Group's total capital commitment in the Contractor, including its proportionate 36.5% share in the contract sum under the Rehabilitation Contract, the Contractor's committed authorised capital and committed working capital, and the proportionate guarantee given by the holding company of K. Wah in respect of the performance bond (details as set out below), is HK\$72,562,000.

(iv) Rehabilitation Contract:

The subject matter of the Rehabilitation Contract is the rehabilitation of Lam Tei Quarry at Castle Peak Road, Lam Tei, New Territories, Hong Kong by the Contractor.

Under the Rehabilitation Contract, the Contractor will design, construct, complete and maintain the rehabilitation works for Lam Tei Quarry in accordance with the terms thereof and is granted the sole and exclusive rights, amongst other things, to process, sell or remove from Lam Tei Quarry rock products as well as to manufacture, sell and export from Lam Tei Quarry ready-mixed concrete, precast concrete units and bituminous materials.

In connection with the Rehabilitation Contract, Asia Stone and K. Wah have issued a joint and several guarantee to the Government in respect of the performance by the Contractor of its obligations under the Rehabilitation Contract. In respect of such arrangement, Asia Stone and K. Wah will execute an indemnity to the intent and effect that as between themselves, liabilities under the guarantee to the Government will be borne by them in such proportions which are equivalent to their respective interests in the Contractor.

(v) Performance Bond:

Under the Rehabilitation Contract, the Contractor is required to provide a performance bond to the Government for the performance by the Contractor of its obligations under the Rehabilitation Contract. A financial institution has issued a performance bond to the Government and each of the holding company of Asia Stone and K. Wah has provided a guarantee to the financial institution in proportionate to its shareholding.

INFORMATION ON ASIA STONE AND THE CONTRACTOR

Asia Stone is a wholly-owned subsidiary of Alliance Construction Materials Limited, the indirect owner of 36.5% of KWP Quarry Co. Limited, a non-wholly owned subsidiary of the Company, and thus the JV Agreement is a connected transaction for the Company under Rule 14A.10 of the Listing Rules. Alliance Construction Materials Limited is otherwise an Independent Third Party to the best knowledge, information and belief of the Directors, having made all reasonable enquiries. The principal business activities of Alliance Construction Materials Limited are investment holding and those of Asia Stone are investment holding and quarrying in Hong Kong.

The Contractor is a company incorporated in Hong Kong on 12 May 2006 for the sole purpose of tendering for the Rehabilitation Contract. The Contractor is newly formed and has negligible assets and liabilities. It has no financial statements and has not yet carried on any business.

REASONS FOR AND BENEFITS OF THE JOINT VENTURE

The Group is principally engaged in the gaming and entertainment business in Macau. The Group is also engaged in the manufacture, sale and distribution of construction materials in Hong Kong, Macau and mainland China.

The Rehabilitation Contract provides an opportunity for the Group to broaden the earning base of the Group's construction materials division. The Group is able to leverage on its experience in the quarrying industry. The Board (including the independent non-executive Directors) are of the view that the entering into of the JV Agreement is in the interests of the Company and the Shareholders as a whole and that the terms of the JV Agreement, are normal commercial terms and are fair and reasonable.

GENERAL

The formation of the Contractor constituted a connected transaction for the Company under Rule 14A.10 of the Listing Rules.

As the relevant percentage ratios in respect of the Group's total capital commitment in the Contractor of HK\$72,562,000 are more than 0.1% but less than 2.5%, the formation of the Contractor is subject only to the reporting and announcement requirements under Rule 14A.32 of the Listing Rules and is exempted from the independent shareholders' approval requirements.

DEFINITIONS

Unless the context otherwise requires, the following expressions have the following meanings in this announcement:

“Asia Stone”	Asia Stone Company Limited, a company incorporated in Hong Kong
“Board”	the board of directors of the Company
“Company”	Galaxy Entertainment Group Limited 銀河娛樂集團有限公司, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Stock Exchange

“connected” and “connected persons”	the meanings given to them in the Listing Rules
“Contractor”	AHK Aggregates Limited, a company incorporated in Hong Kong and an indirect associated company of the Company
“Group”	the Company and its subsidiaries
“Government”	the Government of Hong Kong
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	person(s), or in the case of companies, their ultimate beneficial owner(s), who are independent of and not connected with the Company and its connected persons
“JV Agreement”	a shareholders agreement dated 21 July 2006 between Asia Stone, K. Wah and the Contractor relating to ownership and operation of the Contractor
“K. Wah”	K. Wah Quarry Company Limited, a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Rehabilitation Contract”	a contract No.GE/2006/03 dated 3 October 2006 between the Government and the Contractor for the rehabilitation of Lam Tei Quarry
“Shareholder(s)”	holder(s) of share(s) in the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

As at the date of this announcement, the executive Directors of the Company are Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung, Mr. Chan Kai Nang, Mr. Joseph Chee Ying Keung, Mr. William Lo Chi Chung and Ms. Paddy Tang Lui Wai Yu; the non-executive Director is Mr. Moses Cheng Mo Chi; and the independent non-executive Directors are Dr. Charles Cheung Wai Bun, Mr. James Ross Ansell and Dr. William Yip Shue Lam.

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

Hong Kong, 3 October 2006

*“Please also refer to the published version of this announcement in **South China Morning Post.**”*