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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 TRANSACTIONS

FORMATION OF A STRATEGIC JOINT VENTURE FOR QUARRYING BUSINESS IN HUIDONG, MAINLAND CHINA

On 18 February 2009, Spring High and K. Wah Construction (both wholly owned subsidiaries of the Company) entered into the SPA with Pioneer and Alliance under which Spring High has agreed to sell the Sale Shares and the Shareholder's Loan to Pioneer for a total consideration of HK\$47,084,895. The Sale Shares represent 50% of the issued share capital of Boom Victory, which is the sole shareholder of K. Wah Materials and Development (Huidong) Company Limited, which in turn, is one of the two shareholders of the CJV, being a sino-foreign co-operative joint venture licensed to quarry mine and extract Rock at the Site. Together with the sale of the Sale Shares, Spring High, Pioneer, Boom Victory, K. Wah Construction and Alliance have also on 18 February 2009 entered into the Shareholders' Agreement to govern the terms of the joint venture in Boom Victory. Under the Shareholders' Agreement, Pioneer is required to pay to Spring High a total sum of HK\$110,000,000 in seven annual instalments. K. Wah Construction and Alliance are the guarantors of the obligations of Spring High and Pioneer (respectively) under the SPA and the Shareholders' Agreement.

As Pioneer is a substantial shareholder of a non-wholly owned subsidiary of the Company, and Pioneer is a wholly owned subsidiary of Alliance, both Pioneer and Alliance are connected persons of the Company (at the subsidiary level). As a relevant percentage ratio (as defined under the Listing Rules) in respect of the total consideration under the SPA together with all sums to be paid to Spring High under the Shareholders' Agreement is more than 2.5%, the transactions contemplated under the SPA and the Shareholders' Agreement constitute connected transactions of the Company and therefore are subject to the reporting, announcement and independent shareholders' approval requirements pursuant to the Listing Rules. So far as the Company is aware having made all reasonable enquiries, no shareholder is required to abstain from voting on the Transactions. Pursuant to Rule 14A.43 of the Listing

Rules, a closely allied group of shareholders holding approximately 50.8% of the issued share capital of the Company have given written consent to the Transactions in lieu of a shareholders meeting being convened to approve the Transactions. The Company has applied to the Stock Exchange for a waiver of such shareholders meeting.

A circular containing further details of the Transactions, including a letter of advice from an independent financial adviser, will be despatched to shareholders as soon as practicable.

1. KEY TERMS OF THE SPA

Date: 18 February 2009.

Parties: (A) Spring High as the seller, (B) Pioneer as the purchaser, (C) K. Wah Construction as the guarantor of Spring High, and (D) Alliance as the guarantor of Pioneer.

Subject of the Disposal: The Sale Shares together with the Shareholder's Loan in the principal amount of HK\$4,976,442.

Consideration and payment: In aggregate HK\$47,084,895 all in cash, of which HK\$40,000,000 is for the Sale Shares, and HK\$7,084,895 is for the Shareholder's Loan.

Completion: Immediately upon signing of the SPA when the full consideration was paid in cash. An assignment of the Shareholder's Loan was entered into between Spring High and Pioneer on Completion.

Guarantee and indemnities: K. Wah Construction and Alliance have guaranteed the performance of obligations (including payment of sums) by Spring High and Pioneer (respectively) under the SPA. In addition, K. Wah Construction and Spring High shall jointly and severally (1) be responsible for and discharge all claims and losses which have not been reflected or provided for in the Accounts which may be suffered by the CJV in connection with (a) the liability incurred prior to Completion regarding the employment of any staff or employee of the CJV and (b) the ready-mixed concrete business or activities conducted by K. Wah Huidong Branch prior to Completion, (2) indemnify Pioneer and the Boom Victory Group against tax claims if they arise out of the business of the Boom Victory Group prior to Completion and not provided for in the Accounts and (3) be responsible for claims arising out of the liquidation of K. Wah Huidong Branch and the disposal of a certain piece of land. K. Wah Huidong Branch is a branch of the CJV and previously ran a reinforced mixed concrete business which business ceased in 2006.

2. KEY TERMS OF THE SHAREHOLDERS' AGREEMENT

Date: 18 February 2009.

Parties: (A) Spring High, (B) Pioneer, (C) Boom Victory, (D) K. Wah Construction, and (E) Alliance.

Instalment Payment: Pioneer is required under the Shareholders' Agreement to pay to Spring High a total sum of HK\$110,000,000 in seven annual instalments between the third to ninth anniversaries of Completion.

However, if (a) Pioneer has extracted, processed and removed Rock representing 50% of the presently estimated available reserves from the Site any time before all payments have been made; or (b) Spring High purchases the Boom Victory shares of Pioneer on an event of default or deadlock under the Shareholders' Agreement; or (c) Pioneer transfers any Boom Victory shares to an entity other than Alliance's wholly owned subsidiary; or (d) any Boom Victory Group company is wound up due to the fault of Pioneer or its affiliate, then all the outstanding instalments are immediately due and payable by Pioneer to Spring High.

In the event that for any reason not attributable to the fault of Pioneer:-

- (i) the Mining Licence;
- (ii) any approvals, permissions and authorizations required and necessary for the lawful operations of the business of the CJV; and/or
- (iii) the right of the CJV to export the Quarried Products to Hong Kong,

is/are revoked or terminated before the expiry of their original terms or expire and cannot be renewed within 6 months of such revocation, termination or expiry, then Pioneer is entitled to discontinue paying any remaining outstanding instalments. However, Pioneer's payment obligation shall resume if any such licence, approval, permissions, authorizations and rights are renewed within 36 months from the date of such revocation, termination or expiry.

Directors: For so long as Spring High and Pioneer each holds 50% of the Boom Victory shares in issue, the board of each Boom Victory Group company (other than the CJV) shall comprise of four directors of which each of Spring High and Pioneer shall be entitled to nominate, remove and substitute two directors. Spring High shall have the right to appoint one of its directors as chairman of the board of each company in the Boom Victory

Group with a casting vote in case of an equality of votes at board level. The board of CJV shall comprise of five directors, of which each of Spring High and Pioneer shall each be entitled to nominate, remove and substitute two directors and the PRC partner of the CJV is entitled to nominate, remove and substitute one director.

Capital Contribution: In relation to the general and additional financial requirements of the CJV:

- (a) Spring High and Pioneer shall procure that the CJV will undertake all reasonable efforts to support its operations and generate all monies it requires, including working capital, from the operations of the CJV;
- (b) if determined by the board of the CJV that any additional financing is required by the CJV, each of Spring High and Pioneer shall contribute to the CJV additional capital (including working capital) up to HK\$15,000,000, either in cash or in kind, by means of shareholder loan or by the subscription of further Boom Victory shares in proportion to their respective shareholdings in Boom Victory on such terms as determined by the board of the CJV;
- (c) if determined by the board of the CJV that it is necessary to obtain any borrowing from external sources to fund the requirements of the CJV, (i) such funding will be obtained by means of advances and credits from banks and/or financial institutions and/or similar sources and (ii) Spring High and Pioneer shall, if so required, provide guarantee(s) to the provider of the loan or other credit facility.

Each of Spring High and Pioneer will also contribute to the CJV such plant and equipment as is deemed necessary by the management committee of the CJV (which comprises of four members with two nominated by each of Spring High and Pioneer) for the operations of the CJV at a value to be assessed by an independent valuer to be appointed jointly by them. The value of any contributed assets (as determined by the valuer) will be treated as a shareholder loan made by that shareholder.

To the extent that any government or financial institution, utility or other entities shall require any guarantees, bonds, indemnities or covenants from Spring High and Pioneer, they are required to give or to procure that such security be given and such security shall be given severally in proportion to their respective shareholdings in Boom Victory.

Quarried Products: Pioneer is entitled to an agreed amount of the rock reserves at the Site, and Spring High is entitled to all remaining rock reserves at

the Site. The price at which each of Spring High and Pioneer shall take the Quarried Products from the CJV shall be agreed between the parties and shall reflect as a minimum the total costs of production of the Quarried Products.

Distribution Policy: The distribution policy of each of the Boom Victory Group companies shall be firstly to repay in full all outstanding shareholders' loans to the maximum extent possible and secondly to distribute cash dividend to the shareholders of Boom Victory to the maximum amount possible, in both cases, having regard to any need to maintain reserves for unexpected contingencies, future budgeted capital expenditure or working capital purposes as the board of directors of Boom Victory may consider appropriate.

Guarantee: K. Wah Construction and Alliance have guaranteed the performance of obligations (including payment of sums) by Spring High and Pioneer (respectively) under the Shareholders' Agreement.

The Shareholders' Agreement also contains, inter alia, reserved matters requiring the approval of all directors, pre-emption and deadlock provisions.

3. INFORMATION ON BOOM VICTORY AND THE CJV

Before the Disposal, the Company has 100% interest in Boom Victory and Boom Victory is a wholly owned subsidiary of the Company. After the Disposal, Boom Victory will cease to be a subsidiary of the Company and will be held as to 50% by Spring High and 50% by Pioneer.

Boom Victory is the sole shareholder of K. Wah Materials and Development (Huidong) Company Limited, which in turn, is one of the two shareholders of the CJV (惠東嘉華材料有限公司 (K. Wah Materials (Huidong) Limited)). The other shareholder of the CJV is 廣東省惠東稔山企業集團公司 (Guangdong Huidong Renshan Enterprise Group Company). The CJV is licensed to quarry mine and extract Rock at the Site. The CJV is only at preparatory stage. An access road to the quarry site has been built and fencing has been set up for the quarrying zone. The Company expects that after Completion of the Disposal, the operation team will be in full force to develop the site and set up plant and equipment in accordance with the plan of the management team of the CJV.

The consideration (including the payment of HK\$47,084,895 under the SPA and the payment of HK\$110,000,000 under the Shareholders' Agreement) was arrived at after arm's length negotiation between the parties and being a price acceptable to the parties with reference to the market comparables. The parties agreed on the payment terms of HK\$110,000,000 by way of 7 instalments (from 3rd to 9th anniversary of Completion) under the Shareholders' Agreement after considering that Alliance will need a long period of time to consume the rock reserve and a maximum payment period of 9 years after Completion of the Disposal.

The unaudited consolidated net losses before and after tax of the Boom Victory Group for the two financial years ended 31 December 2007 and 2008, prepared in accordance with HKGAAP, were HK\$2,963,000 and HK\$2,483,000 respectively.

The unaudited net asset value of Boom Victory, prepared in accordance with HKGAAP, amounted to HK\$3,481,000 as at 31 December 2008.

Upon Completion, Boom Victory ceases to be a subsidiary of the Company and its result will be equity accounted for as a jointly controlled entity of the Company. There will be a disposal gain estimated to be approximately HK\$40 million (before expenses) arising from the Disposal based on the payment of HK\$47,084,895 under the SPA less the carrying value of the investment. This is calculated based on the consideration payable for the Sale Shares under the SPA of HK\$40 million less approximately HK\$2 million (being half of the unaudited net asset value of Boom Victory as at 31 December 2008) plus the difference between the consideration paid for the Shareholder's Loan of approximately HK\$7 million and its principal amount of approximately HK\$5 million. The Company intends to apply the net proceeds for its general working capital requirements.

4. INFORMATION ON THE COMPANY

The Group's principal business is the development and operation of casino and gaming and gaming related facilities and related leisure and entertainment facilities in Macau. It also has businesses in the manufacture, sale and distribution of construction materials and quarrying in Hong Kong, Macau and the PRC.

5. INFORMATION ON PIONEER AND ALLIANCE

Pioneer is a substantial shareholder holding 36.5% of the issued share capital of KWP Quarry Co. Limited, a 63.5% owned subsidiary of the Company. Pioneer is wholly owned by Alliance. Therefore Pioneer and Alliance are connected persons of the Company (at the subsidiary level). Alliance is also an indirect holding company holding (i) 63.5% of AHK Aggregates Limited, a 36.5% owned associated company of the Company and (ii) 50% of AHK Concrete Limited, a 50% owned jointly-controlled entity of the Company. Alliance is ultimately held as to 50% by HeidelbergCement AG, a public limited company incorporated in Germany. The remaining 50% of Alliance is ultimately held by Cheung Kong Infrastructure Holdings Limited, a listed company incorporated in Hong Kong. Save as disclosed in this paragraph, (i) Alliance and its ultimate beneficial owners, HeidelbergCement AG and Cheung Kong Infrastructure Holdings Limited and (ii) Pioneer are Independent Third Parties to the best knowledge, information and belief of the Directors, having made all reasonable enquiries. The principal business activities of Pioneer and Alliance are investment holding and those of their subsidiaries are quarrying and production and sale of concrete and aggregates.

6. REASONS FOR AND BENEFITS OF THE DISPOSAL AND THE SHAREHOLDERS' AGREEMENT

The Disposal and the Shareholders' Agreement represent an opportunity for the Group to form a strategic business alliance with Pioneer and Alliance to capitalize on the growth potential of Huidong, the PRC. The Board regards Pioneer and Alliance as preferred cooperation partners as their connections and resources are expected to be helpful for the Group's business development in the region. It is believed that the cooperation will provide synergies in respect of the parties' technology and competence, which will enhance the competitive edge and broaden the earning base of the construction materials division of the Group.

The Directors (including the independent non-executive Directors) consider that the SPA and the Shareholders' Agreement are on normal commercial terms and their terms (including instalment payment terms) are fair and reasonable and are in the interest of the Company and its shareholders as a whole.

7. LISTING RULES IMPLICATION

As Pioneer is a substantial shareholder of a non-wholly owned subsidiary of the Company, and Pioneer is wholly owned by Alliance, both Pioneer and Alliance are connected persons of the Company (at the subsidiary level). As a relevant percentage ratio (as defined under the Listing Rules) in respect of the total consideration under the SPA together with all sums to be paid to Spring High under the Shareholders' Agreement is more than 2.5%, the transactions contemplated under the SPA and the Shareholders' Agreement constitute connected transactions of the Company and therefore are subject to the reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.32 of the Listing Rules. So far as the Company is aware having made all reasonable enquiries, no shareholder is required to abstain from voting on the Transactions. Pursuant to Rule 14A.43 of the Listing Rules, Dr. Lui holding 10,097,632 Shares, together with companies held by him (Super Focus Company Limited holding 106,716,107 Shares, Mark Liaison Limited holding 9,660,855 Shares, Premium Capital Profits Limited holding 13,308,179 Shares, Best Chance Investments Ltd. holding 80,387,837 Shares and Favor Right Investments Limited holding 22,500,000 Shares), City Lion Profits Corp. (a company held by a discretionary family trust set up by Dr. Lui holding 1,313,887,206 Shares), Mr. Lui Yiu Tung Francis (Dr. Lui's son holding 1,448,896 Shares), Recurrent Profits Limited (a company wholly owned by Mr. Lui Yiu Tung Francis holding 114,504,039 Shares), Ms. Lui Wai Yu Paddy (Dr. Lui's daughter holding 5,539,722 Shares), Netfinity Assets Corporation (a company wholly owned by Mr. Lui Yiu Nam Lawrence, Dr. Lui's son and holding 161,066,521 Shares) and Sutimar Enterprises Limited (a wholly owned subsidiary of K. Wah International Holdings Limited, a company listed on the Stock Exchange and held as to 57% by Dr. Lui as at the date hereof and holding 162,484,047 Shares), being a closely allied group of shareholders holding approximately 50.8% of the total issued share capital of the Company have given written consent to the Transactions in lieu of a shareholders meeting being convened to approve the Transactions. The Company has applied to the Stock Exchange for a waiver of such shareholders meeting.

A circular containing further details of the Transactions, including a letter of advice from an independent financial adviser, will be despatched to shareholders as soon as practicable.

DEFINITIONS

In this announcement, unless otherwise stated, the following expressions mean:

"%"	Percent.
"Accounts"	the audited accounts of the CJV for the 12 months ended 31 December 2007 and certain management accounts of the Boom Victory Group.

“Adjacent Land”	the industrial land located at 稔山鎮牛牯墩村石下排地段 (Shi-Xia-Pai Section of Niu-Gu-Dun Village of Ren-Shan Town) with an area of approximately 43,791 m ² to the northeast of the Forest Land, the use of which was granted to the CJV by the Government of Huidong County (惠東縣人民政府).
“Alliance”	Alliance Construction Materials Limited, a company incorporated in Hong Kong.
“Board”	the Board of Directors of the Company.
“Boom Victory”	Boom Victory Investments Limited, a company incorporated in the British Virgin Islands.
“Boom Victory Group”	Boom Victory and its subsidiaries.
“CJV”	惠東嘉華材料有限公司 (K. Wah Materials (Huidong) Limited), a sino-foreign co-operative joint venture, the two shareholders of which are K. Wah Materials and Development (Huidong) Company Limited and 廣東省惠東稔山企業集團公司 (Guangdong Huidong Renshan Enterprise Group Company) and is licensed to quarry mine and extract Rock at the Site.
“Company”	Galaxy Entertainment Group Limited, a company incorporated with limited liability in Hong Kong, the shares of which are listed on the Main Board of the Stock Exchange.
“Completion”	Completion of the Disposal by the parties pursuant to the terms of the SPA.
“Directors”	the directors of the Company.
“Disposal”	the proposed disposal by Spring High of the Sale Shares and the Shareholder’s Loan to Pioneer.
“Dr. Lui”	Dr. Lui Che Woo, the Chairman and an executive Director of the Company.
“Forest Land”	the piece of forest land located at 石下排山 (Shi-Xia-Pai Hill) with an area of 1,177 mu (approximately 764,658.5 m ²) leased by 惠東縣稔山鎮牛牯墩村民委員會 (the Committee of Niu-Gu-Dun Village of Ren-Shan Town of Huidong County) and acknowledged by 惠東縣稔山鎮人民政府 (the Government of Ren-Shan Town of Huidong County) to the CJV.
“Group”	the Company and its subsidiaries.
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong.

“HKGAAP”	the generally accepted accounting principles in Hong Kong.
“Hong Kong”	the Hong Kong Special Administrative Region of The People’s Republic of China.
“Independent Third Party”	independent third party not connected with the Company, any director, chief executive or substantial shareholder of the Company or any of its subsidiaries or their respective associates as defined in the Listing Rules.
“K. Wah Construction”	K. Wah Construction Materials (Hong Kong) Limited, a company incorporated in Hong Kong and an indirect wholly owned subsidiary of the Company.
“K. Wah Huidong Branch”	惠東嘉華材料有限公司大亞灣分公司, a branch company of the CJV.
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange.
“Mining Licence”	the mining licence (採礦許可證) with licence no. 4400000210019 issued by the Guangdong Provincial Department of Land and Resources (廣東省國土資源廳) to the CJV dated 22 April 2002.
“Pioneer”	Pioneer Quarries (Hong Kong) Limited, a company incorporated in Hong Kong and a substantial shareholder of a subsidiary of the Company.
“PRC”	The People’s Republic of China.
“Quarried Products”	the Rock quarried from and/or processed at the Site and/or the Adjacent Land and any other rock imported to and processed at the Site and/or the Adjacent Land.
“Rock”	the rock that will be extracted, processed and removed from the Site.
“RMB”	Renminbi, the lawful currency of the PRC.
“Sale Shares”	all those 50 (fully paid-up) ordinary shares, representing 50% interest, of and in the issued share capital of Boom Victory, which are the subject of the Disposal.
“Shareholders’ Agreement”	the shareholders’ agreement dated 18 February 2009 between Spring High, Pioneer, Boom Victory, K. Wah Construction and Alliance setting out the terms of the joint venture in Boom Victory.

- “Shareholder’s Loan”** the amount of HK\$4,976,442 (being 50% of the sum owing by Boom Victory to Spring High), which is to be assigned on Completion by Spring High to Pioneer pursuant to the terms of the SPA.
- “Shares”** shares of HK\$0.10 each in the capital of the Company.
- “Site”** the quarry site within the Forest Land prescribed by the Mining Licence.
- “Spring High”** Spring High Limited, a company incorporated in the British Virgin Islands and an indirect wholly owned subsidiary of the Company.
- “SPA”** the agreement for sale and purchase of the Sale Shares dated 18 February 2009 between Spring High, Pioneer, K. Wah Construction and Alliance under which Spring High has agreed to sell the Sale Shares and the Shareholder’s Loan to Pioneer.
- “Stock Exchange”** The Stock Exchange of Hong Kong Limited.
- “Transactions”** the SPA, the Shareholders’ Agreement and the transactions contemplated thereunder.

As at the date of this announcement, the executive Directors of the Company are Dr. Lui Che Woo (Chairman), Mr. Francis Lui Yiu Tung, Mr. Joseph Chee Ying Keung and Ms. Paddy Tang Lui Wai Yu; the non-executive Directors of the Company are Dr. Moses Cheng Mo Chi, Mr. Anthony Thomas Christopher Carter, Dr. Martin Clarke and Mr. Guido Paolo Gamucci; and the independent non-executive Directors of the Company are Mr. James Ross Ancell, Dr. William Yip Shue Lam and Dr. Patrick Wong Lung Tak.

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

Hong Kong, 18 February 2009