

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the actions to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Galaxy Entertainment Group Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



GALAXY ENTERTAINMENT GROUP LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 27)

DISCLOSEABLE TRANSACTION

ACQUISITION OF FURTHER INTEREST IN TARMAC ASPHALT HONG KONG LIMITED

1 September 2006

CONTENTS

| | <i>Page</i> |
|---|-------------|
| Definitions | 1 |
| Letter from the Board | |
| • Introduction | 3 |
| • The Agreement dated 11 August 2006 | 4 |
| • Information of Tarmac Asphalt | 5 |
| • Reasons for and benefits of the Acquisition | 5 |
| • Financial impact of the Acquisition | 5 |
| • General | 5 |
| • Further Information | 5 |
| Appendix – General Information | 6 |

DEFINITIONS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

| | |
|-------------------------------------|--|
| “Acquisition” | the acquisition of a 80% interest in Tarmac Asphalt by the Purchaser pursuant to the Agreement |
| “Agreement” | the sale and purchase agreement dated 11 August 2006 made between the Purchaser and the Vendor in relation to the sale and purchase of the Sale Shares |
| “Board” | the board of Directors |
| “Business” | the business of manufacture, supply and laying of asphalt and other bituminous and non-bituminous road surfacing materials, the provision and supply of road marking services and materials, and other matters and business incidental thereto |
| “Company” | Galaxy Entertainment Group Limited, a company incorporated in Hong Kong with limited liability and the Shares of which are listed on the Stock Exchange |
| “Completion” | completion of the Agreement |
| “connected” and “connected persons” | the meanings given to them in the Listing Rules |
| “Consideration” | the consideration for the sale and purchase of the Sale Shares pursuant to the Agreement, being HK\$87,394,104.29 |
| “Directors” | directors of the Company |
| “Group” | the Company and its subsidiaries |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “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 |
| “K. Wah” | K. Wah Construction Materials Limited, a company incorporated in the British Virgin Islands and a direct wholly-owned subsidiary of the Company |
| “Latest Practicable Date” | 28 August 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to herein |

DEFINITIONS

| | |
|------------------|--|
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “Macau” | the Macau Special Administrative Region of the PRC |
| “Period” | the inclusive period beginning on 11 August 2006 and ending on 11 August 2016 |
| “PRC” | the People’s Republic of China, which shall for the purpose of this circular exclude Hong Kong and Macau |
| “Purchaser” | Taksin Profits Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of the Company |
| “Sale Shares” | 880,000 shares of HK\$10 each owned by the Vendor representing in aggregate 80% of the existing issued share capital of Tarmac Asphalt |
| “SFO” | The Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong |
| “Share(s)” | Share(s) of HK\$0.10 each in the capital of the Company |
| “Shareholder(s)” | holder(s) of Share(s) |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Tarmac Asphalt” | Tarmac Asphalt Hong Kong Limited 泰瑪士柏油香港有限公司, a company incorporated in Hong Kong |
| “Tarmac Holding” | Tarmac Limited, a company incorporated in the United Kingdom and the holding company of the Vendor |
| “Vendor” | Tarmac International Holdings BV, a company incorporated in the Netherlands |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |

LETTER FROM THE BOARD



GALAXY ENTERTAINMENT GROUP LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 27)

Executive Directors:

Dr. Lui Che Woo, GBS, MBE, JP, LLD, DSSc (*Chairman*)
Francis Lui Yiu Tung (*Deputy Chairman*)
Chan Kai Nang
Joseph Chee Ying Keung
William Lo Chi Chung
Paddy Tang Lui Wai Yu, JP

Registered Office:

Room 1606, 16th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

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

1 September 2006

To the Shareholders,

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION

ACQUISITION OF FURTHER INTEREST IN TARMAC ASPHALT HONG KONG LIMITED

INTRODUCTION

On 14 August 2006, the Board announced that the Agreement was entered into between the Vendor and the Purchaser on 11 August 2006. Pursuant to the Agreement, the Vendor agreed to dispose of and the Purchaser agreed to acquire a 80% interest in Tarmac Asphalt for a consideration of HK\$87,394,104.29. The Acquisition constituted a discloseable transaction for the Company under the Listing Rules. The purpose of this circular is to provide you with details of the Agreement.

LETTER FROM THE BOARD

THE AGREEMENT DATED 11 AUGUST 2006

(i) Parties to the Agreement

Vendor: Tarmac International Holdings BV

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Vendor and its ultimate beneficial owners are Independent Third Parties save for being a joint venture partner of the Purchaser in Tarmac Asphalt. The principal business activities of the Vendor are investment holdings.

Purchaser: Taksin Profits Limited, an indirect wholly-owned subsidiary of the Company incorporated in the British Virgin Islands

(ii) Assets Involved

Pursuant to the Agreement, the Purchaser agreed to acquire, and the Vendor agreed to sell, as the legal and beneficial owner of, the Sale Shares. The Sale Shares represent 80% of the existing issued share capital of Tarmac Asphalt which is a company incorporated in Hong Kong. Prior to the Acquisition, Tarmac Asphalt was held as to 80% by the Vendor and 20% by the Purchaser. The Group acquired such 20% interest in Tarmac Asphalt in 1997 from its then holding company. Upon completion of the Acquisition, Tarmac Asphalt becomes an indirect wholly-owned subsidiary of the Company.

(iii) The Consideration

The Consideration for the Sale Shares of HK\$87,394,104.29 was paid on Completion and was agreed between the parties based on arm's length negotiation taking into account the net assets value and business prospects of Tarmac Asphalt. The Consideration represents approximately 3.6% premium to the net assets value attributable to the Sale Shares as at 31 March 2006. The Consideration was financed by internal resources of the Group.

(iv) Completion

Completion took place upon signing of the Agreement on 11 August 2006.

Upon Completion and in line with the business strategy of the parties, each of K. Wah (being the holding company of the Purchaser) and Tarmac Holding (being the holding company of the Vendor) has provided an undertaking to the Vendor and the Purchaser respectively not to, and procure its group companies not to be involved directly or indirectly in any Business within a designated area during the Period. In respect of K. Wah, the designated area comprises Shanghai and Zhejiang Province in the PRC and the designated area in the case of Tarmac Holding comprises Hong Kong, Macau and Guangdong Province in the PRC. Such arrangements conform with the existing focus and strategic objectives of the parties.

LETTER FROM THE BOARD

INFORMATION OF TARMAC ASPHALT

Tarmac Asphalt is a company incorporated in Hong Kong on 28 April 1978 and is principally engaged in the business of manufacture, supply and laying of asphalt and other bituminous materials and road marking services.

Based on the audited financial statements of Tarmac Asphalt for the two years ended 31 December 2005, Tarmac Asphalt recorded (i) a profit before taxation of approximately HK\$20,224,000 and approximately HK\$19,919,000 respectively and (ii) a profit after taxation of approximately HK\$16,174,000 and approximately HK\$16,287,000 respectively. As at 31 March 2006, the net assets value of Tarmac Asphalt was approximately HK\$105,435,000.

REASONS FOR AND BENEFITS OF THE ACQUISITION

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 the PRC.

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 Group is able to leverage on its experience in the construction materials industry and achieve synergistic efficiency in production and product marketing. The Directors (including the independent non-executive Directors) are of the view that the entering into of the Agreement is in the interests of the Company and the Shareholders as a whole and the terms of the Agreement, including the Consideration, which are normal commercial terms, are fair and reasonable.

FINANCIAL IMPACT OF THE ACQUISITION

The Consideration was funded by way of cash from the internal resources of the Group. The Acquisition is not expected to result in material adverse impact on the Company's cashflow position or its business operations. As Tarmac Asphalt has become a wholly owned subsidiary of the Company after Completion and its earnings, assets and liabilities will be consolidated in the Company's future audited consolidated financial statements, it is expected that the Acquisition will thereby also increase the Company's earnings, assets and liabilities accordingly.

GENERAL

The Acquisition constitutes a discloseable transaction for the Company under Rule 14.06(2) of the Listing Rules.

FURTHER INFORMATION

Your attention is drawn to the information set out in the appendix to this circular.

Yours faithfully
For and on behalf of the Board
Dr. Lui Che Woo
Chairman

(1) RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this circular misleading.

(2) DIRECTORS' INTERESTS IN SECURITIES AND SHARE OPTIONS

As at the Latest Practicable Date, 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, as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or as recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, were as follows:

(a) 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

| Name | Number of Options | Exercise price (HK\$) | Exercise period |
|------------------------|-------------------|--------------------------|---------------------------|
| Lui Che Woo | 1,500,000 | 0.5333 | 20 May 1999 – 19 May 2008 |
| | 1,800,000 | 0.5216 | 30 Dec 2000 – 29 Dec 2009 |
| | 2,000,000 | 0.5140 | 1 Mar 2004 – 28 Feb 2013 |
| | 2,700,000 | 4.5900 | 22 Oct 2005 – 21 Oct 2011 |
| | 590,000 | 4.5900 | 22 Oct 2006 – 21 Oct 2011 |
| Francis Lui Yiu Tung | 1,000,000 | 0.5333 | 20 May 1999 – 19 May 2008 |
| | 1,600,000 | 0.5216 | 30 Dec 2000 – 29 Dec 2009 |
| | 1,870,000 | 0.5140 | 1 Mar 2004 – 28 Feb 2013 |
| | 6,000,000 | 4.5900 | 22 Oct 2005 – 21 Oct 2011 |
| | 580,000 | 4.5900 | 22 Oct 2006 – 21 Oct 2011 |
| Chan Kai Nang | 110,000 | 0.5140 | 1 Mar 2004 – 28 Feb 2013 |
| | 270,000 | 4.5900 | 22 Oct 2006 – 21 Oct 2011 |
| Joseph Chee Ying Keung | 270,000 | 4.5900 | 22 Oct 2006 – 21 Oct 2011 |
| William Lo Chi Chung | 1,500,000 | 4.5900 | 22 Oct 2005 – 21 Oct 2011 |
| | 230,000 | 4.5900 | 22 Oct 2006 – 21 Oct 2011 |
| Paddy Tang Lui Wai Yu | 3,000,000 | 4.5900 | 22 Oct 2005 – 21 Oct 2011 |
| | 400,000 | 4.5900 | 22 Oct 2006 – 21 Oct 2011 |
| Charles Cheung Wai Bun | 250,000 | 4.5900 | 22 Oct 2006 – 21 Oct 2011 |
| Moses Cheng Mo Chi | 300,000 | 0.5140 | 1 Mar 2004 – 28 Feb 2013 |
| | 200,000 | 4.5900 | 22 Oct 2006 – 21 Oct 2011 |
| James Ross Ancell | 250,000 | 4.5900 | 22 Oct 2006 – 21 Oct 2011 |
| William Yip Shue Lam | 250,000 | 4.5900 | 22 Oct 2006 – 21 Oct 2011 |

(c) Debentures

| Name | Amount of Debentures | | |
|-----------------------|---------------------------|------------------------------|-----------------|
| | Corporate Interests | Other Interests | Total Interests |
| | (HK\$) | (HK\$) | (HK\$) |
| Lui Che Woo | – | 2,320,898,413 ⁽⁴⁾ | 2,320,898,413 |
| Francis Lui Yiu Tung | 59,906,654 ⁽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 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. K. Wah International Holdings Limited (“KWIH”), a substantial shareholder of the Company listed on the Stock Exchange, was interested in 614,984,047 Shares 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 interested by the trusts and in those Shares in which KWIH was interested as aforesaid.
- (3) 111,138,039 Shares and debentures of the Company in the amount of HK\$59,906,654 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 of 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 the Latest Practicable Date, none of the Directors 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).

(3) SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, 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.

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 of the Company between Mr. Francis Lui Yiu Tung and Top Notch Opportunities Limited;
- (iii) 60,000,000 Shares and 33,999,891 underlying shares of the Company between Mr. Francis Lui Yiu Tung and Mr. Pedro Ho On Chun;

- (iv) 265,615,622 Shares (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 the Latest Practicable Date, the Company had not been notified by any persons who had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

(4) DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered into any service contracts with any members of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

(5) LITIGATION

As at the Latest Practicable Date, no member of the Group is engaged in any litigation or claims of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

(6) COMPETING INTERESTS OF DIRECTORS AND ASSOCIATES

As at the Latest Practicable Date, none of the Directors or their respective associates was interested in any business (other than as an independent non-executive director) which competes or is likely to compete, either directly or indirectly, with the business of the Group.

(7) GENERAL

- (a) The registered office of the Company is at Room 1606, 16th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong.
- (b) The company secretary of the Company is Ms. Kitty Chan Lai Kit, B.A., an associate member of the Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries.
- (c) The qualified accountant of the Company is Mr. Cheung Wing Hong, Fellow of the Hong Kong Institute of Certified Public Accountants, Fellow of Chartered Certified Accountants and Associate Chartered Accountant.
- (d) The share registrars and transfer office of the Company is Computershare Hong Kong Investor Services Limited, Shops 1712 – 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.