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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)**



**K. WAH INTERNATIONAL HOLDINGS LIMITED**

**嘉華國際集團有限公司**

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 173)**

**POSSIBLE ISSUE OF 323,384,000 NEW SHARES TO PERMIRA INVESTMENT VEHICLES**

**POSSIBLE FULL REPAYMENT OF CLASS 'B' VARIABLE RATE UNSECURED LOAN NOTES BY CONVERSION OF CLASS 'B' VARIABLE RATE UNSECURED LOAN NOTES INTO NEW SHARES AND CASH PAYMENT TO CONNECTED PERSONS, CONNECTED TRANSACTION FOR**

**GALAXY ENTERTAINMENT GROUP LIMITED**

**POSSIBLE SALE TO PERMIRA INVESTMENT VEHICLES OF 452,500,000 SHARES OF GALAXY ENTERTAINMENT GROUP LIMITED BY, MAJOR AND CONNECTED TRANSACTION FOR, AND RESUMPTION OF TRADING IN SHARES OF**

**K. WAH INTERNATIONAL HOLDINGS LIMITED**

**Financial adviser to Galaxy Entertainment Group Limited**



Galaxy proposes to strengthen substantially its capital structure with a gross cash injection of approximately HK\$2.7 billion and a net cash injection of approximately HK\$1.4 billion, a reduction in debt of approximately HK\$2.6 billion, and a net annual interest reduction of approximately HK\$150 million.

To that end, on 8 October, 2007, Galaxy entered into the Subscription Agreement with the Permira Investment Vehicles, and the Investors' Rights Agreement with, amongst others, Permira SPV I (the Permira Investment Vehicles being Independent Third Parties) and the FRN Agreement with the Noteholders, who are connected persons of Galaxy. Under these agreements, Galaxy will issue an aggregate of 480,188,000 new Galaxy Shares at a price of HK\$8.42 each.

On the same day, Sutimar, a wholly-owned subsidiary of KWIH, the Permira Investment Vehicles and KWIH entered into the Share Purchase Agreement for the sale of 452,500,000 Galaxy Shares at a price of HK\$8.42 each for a total cash consideration of HK\$3,810,050,000.

Immediately after Completion assuming that there will be no change in its issued share capital from the date of this announcement to Completion save for the issue of the Subscription Shares and the Conversion Shares:

- KWIH will own about 4.3% of the issued share capital of Galaxy;
- the Permira Investment Vehicles will own about 20.5% of the issued share capital of Galaxy; and
- the Family Companies together with their respective associates and parties acting in concert with them, will own about 53.93% of the issued share capital of Galaxy.

Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares and the Conversion Shares. Steps will be taken before Completion to ensure that Galaxy will have sufficient public float immediately after Completion. These may include disposals of Galaxy Shares by Galaxy Shareholders who do not form part of the public for the purposes of the Listing Rules and/or issues of new Galaxy Shares to persons who do form part of the public for the purposes of the Listing Rules and further information will be included in the Circular. The Stock Exchange has advised Galaxy that listing of and permission to deal in the Subscription Shares and Conversion Shares will not be granted if as a result of their issue there will be insufficient Galaxy Shares in public hands.

The Principal Trust is the controlling shareholder of Galaxy and immediately after Completion, the Principal Trust will continue to have Control of Galaxy. The Disposal, issue of the Subscription Shares and issue of the Conversion Shares will not result in any general offer obligation under the Takeovers Code.

Dr. Lui is the controlling shareholder of KWIH and will remain its controlling shareholder immediately after Completion.

The Noteholders are connected persons of Galaxy and the FRN Agreement is thus a connected transaction for Galaxy. The Subscription Agreement and the FRN Agreement are conditional upon, amongst other things, the approval of the Galaxy Independent Shareholders. Voting will be conducted by way of poll. The Major Shareholders (including the Noteholders), KWIH, members of the Lui Family and their respective associates will abstain from voting.

No member of the Galaxy Group is party to the Shareholders Agreement and it has no implications for Galaxy under the Listing Rules.

Under the Listing Rules, the Disposal will constitute a connected transaction and major transaction for KWIH by reason of Rule 14A.13(1)(b)(i) of the Listing Rules. The Disposal is conditional upon, amongst other things, the approval of the KWIH Independent Shareholders. Voting will be conducted by way of poll. Dr. Lui and his spouse, members of the Lui Family and their respective associates and parties acting in concert with them will abstain from voting.

KWIH, Sutimar and the Permira Investment Vehicles have received from Penta, a company that owns approximately 15.79% of the issued voting shares in KWIH, an undertaking to vote in favour of the resolution to approve the Share Purchase Agreement at the KWIH SGM. Other conditions precedent to Completion are set out in the subsections headed “Conditions Precedent” in the section headed “The Agreements” below.

A joint circular of Galaxy and KWIH containing, amongst other things, further particulars of the Disposal, the FRN Agreement, the Subscription Agreement, the Investors’ Rights Agreement and the Shareholders Agreement, the recommendations of the KWIH Independent Board Committee in respect of the Disposal, a letter of advice from an independent financial adviser to be appointed to advise the KWIH Independent Board Committee and the KWIH Independent Shareholders, the recommendations of the Galaxy Independent Board Committee on the FRN Agreement and a letter of advice from Commerzbank AG Hong Kong Branch, independent financial adviser to the Galaxy Independent Board Committee and the Galaxy Independent Shareholders, and notices convening the Galaxy EGM and the KWIH SGM will be sent to the Galaxy Shareholders and the KWIH Shareholders respectively as soon as is practicable.

**As Completion is subject to the fulfilment of a number of conditions precedent, the proposals may or may not proceed. Shareholders and potential investors in Galaxy should exercise caution when dealing in the Galaxy Shares and shareholders and potential investors in KWIH should exercise caution when dealing in the KWIH Shares.**

Trading in the Galaxy Shares on the Stock Exchange was suspended at the request of Galaxy with effect from 2:30 p.m. on 5 October, 2007. Trading in the Galaxy Shares will remain suspended on 12 October, 2007 in connection with a possible issue of Galaxy Shares and a further announcement will be made about that at the appropriate time.

Trading in the KWIH Shares on the Stock Exchange was suspended at the request of KWIH with effect from 9:30 a.m. on 8 October, 2007. KWIH has applied for a resumption of trading in the KWIH Shares with effect from 9:30 a.m. on 12 October, 2007.

## **CONTRACTS INVOLVED**

The proposals involve the following:

### **Subscription Agreement**

On 8 October, 2007, Galaxy agreed to issue the Subscription Shares to the Permira Investment Vehicles at the Transaction Price per Subscription Share. The aggregate consideration payable for the Subscription Shares is HK\$2,722,893,280 for 323,384,000 new shares and is to be satisfied in cash at Completion. Further details of the Subscription Agreement are set out below.

### **Share Purchase Agreement**

On 8 October, 2007, Sutimar, a wholly-owned subsidiary of KWIH, agreed to sell the Sale Shares to the Permira Investment Vehicles at the Transaction Price per Sale Share. The aggregate consideration payable is HK\$3,810,050,000 for the 452,500,000 Sale Shares and is to be satisfied in cash at Completion. Further details of the Share Purchase Agreement are set out below.

### **Investors' Rights Agreement**

On 8 October, 2007, in connection with the Subscription Agreement, Galaxy, Permira SPV I, the Major Shareholders and Permira LP entered into the Investors' Rights Agreement. Further details of the Investors' Rights Agreement are set out below.

### **FRN Agreement**

On 8 October, 2007, Galaxy and the Noteholders entered into the FRN Agreement under which amongst other things Galaxy agreed to convert about 50% of the principal amount of the FRNs and accrued interest, being HK\$1,320,289,680, into the Conversion Shares, at the Transaction Price per Conversion Share and to redeem the balance of the principal in cash (as it has the option to do under the terms of the FRNs on issue of the Subscription Shares) After Completion there will be no FRNs outstanding and Galaxy will have no material indebtedness to any connected persons of Galaxy. Further details of the FRN Agreement are set out below.

### **Interconditionality**

The Share Purchase Agreement, Subscription Agreement and FRN Agreement are all inter-conditional and none of them will be completed unless all three are completed at or about the same time. The Investors' Rights Agreement is in effect conditional on each of the Share Purchase Agreement, Subscription Agreement and FRN Agreement as it will lapse if any of them is not completed and although it is not conditional on any such approval, it will be put to Galaxy Shareholders for approval at the Galaxy EGM.

The Noteholders are connected persons of Galaxy and the FRN Agreement is thus a connected transaction for Galaxy. The Subscription Agreement and the FRN Agreement are conditional upon, amongst other things, the approval of the Galaxy Independent Shareholders and the Investors' Rights Agreement will lapse if the Subscription Agreement is not completed. Voting will be conducted by way of poll. The Principal Trust, Family Companies, KWIH, members of the Lui Family and their respective associates will abstain from voting.

The Disposal constitutes a connected transaction for KWIH and the Share Purchase Agreement is conditional upon, amongst other things, the approval of the KWIH Independent Shareholders. Voting will be conducted by way of poll. Dr. Lui, his spouse, and companies controlled by him members of the Lui Family and their respective associates will abstain from voting.

### **Transaction Price**

The Transaction Price of HK\$8.42 per Galaxy Share represents a discount of about 6.4% to the closing price per Galaxy Share of HK\$9.00 quoted on the Stock Exchange on the Last Dealing Date and a discount of about 6.2% to the 5 consecutive trading days' average closing price per Galaxy Share of HK\$8.98 as quoted on the Stock Exchange for the period from 28 September, 2007 up to and including the Last Dealing Date. The Transaction Price represents a premium of 5.4% to the average closing price per Galaxy Share of HK\$7.99 for the 30 consecutive trading days from 23 August, 2007 up to and including the Last Dealing Date. The Transaction Price represents a premium of 8.3% to the average closing price per Galaxy Share of HK\$7.78 for the 90 consecutive trading days from 29 May, 2007 up to and including the Last Dealing Date.

The unaudited consolidated net asset value of Galaxy (excluding minority interests) as at 30 June, 2007 was approximately HK\$4.05 per Galaxy Share. The Transaction Price represents a premium of approximately 108% over Galaxy's unaudited consolidated net asset value (excluding minority interests) as at 30 June, 2007 of HK\$4.05 per Galaxy Share. The estimated net asset value (excluding minority interests) immediately after Completion will be approximately HK\$4.44 per Galaxy Share.

The Transaction Price was arrived at after arms' length negotiations among the parties, by reference to amongst other things:

- an analysis of placements by comparable companies;
- an analysis of the strategic value in having an investor of the calibre of the Permira Fund; and
- an analysis of the possible enhancement to Galaxy's growth prospects of securing a resourceful and well-known substantial shareholder.

The proposals will substantially strengthen Galaxy's capital structure, resulting in a gross cash injection of approximately HK\$2.7 billion and a net cash injection of approximately HK\$1.4 billion, a reduction in debt of approximately HK\$2.6 billion, and a net annual interest reduction of approximately HK\$150 million.

## Shareholders Agreement

On 8 October, 2007, the Permira Investment Vehicles and the Major Shareholders entered into a Shareholders Agreement setting out certain arrangements between themselves concerning governance of Galaxy and dealings in Galaxy Shares. The Shareholders Agreement will lapse if the Share Purchase Agreement, Subscription Agreement and FRN Agreement are not completed. Further details of the Shareholders Agreement are set out below.

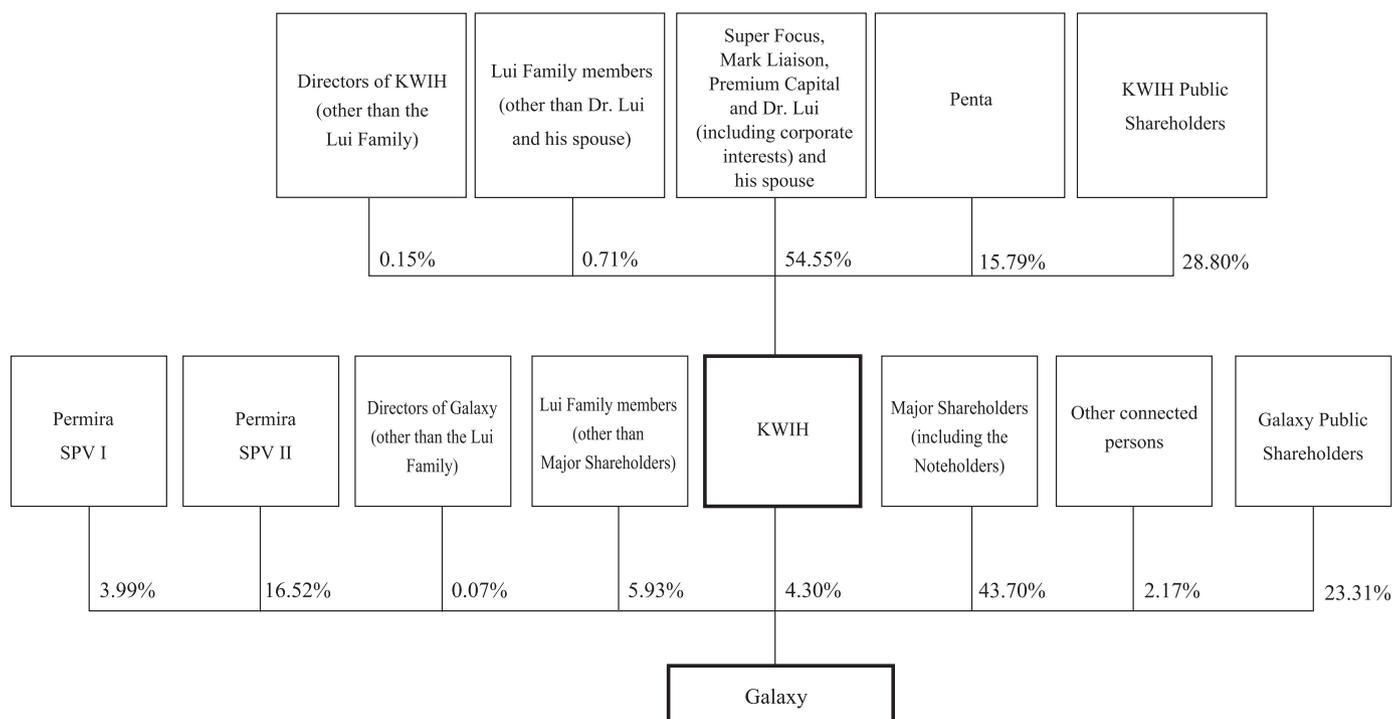
## SHAREHOLDING STRUCTURE

The following diagrams illustrate the corporate and shareholding structure of Galaxy and KWIH before Completion and of Galaxy and KWIH immediately after Completion:

### Before Completion



## After Completion



### Notes:

1. Some numbers in the above shareholding structure charts have been rounded. As a result, totals may not add up to exactly 100%.
2. City Lion and Recurrent Profits are included under Major Shareholders. Netfinity is not a Major Shareholder and its interest is included under Lui Family members (other than Major Shareholders).

Steps will be taken before Completion to ensure that Galaxy will have sufficient public float immediately after Completion. The Stock Exchange has advised Galaxy that listing of and permission to deal in the Subscription Shares and Conversion Shares will not be granted if as a result of their issue there will be insufficient Galaxy Shares in public hands.

## THE AGREEMENTS

### Subscription Agreement

Set out below is a summary of the principal terms of the Subscription Agreement:

Date: 8 October, 2007

Parties to the Subscription Agreement:

1. Galaxy;
2. the Permira Investment Vehicles; and
3. Permira LP.

Subject matter: The Permira Investment Vehicles severally agreed conditionally to acquire the Subscription Shares at the Transaction Price.

Consideration: The Transaction Price is HK\$8.42 per Subscription Share, or HK\$2,722,893,280, which will be satisfied in cash on Completion. Further details are set out below.

The Subscription Shares represent about 9.8% of the existing issued share capital of Galaxy and about 8.5% of the enlarged issued share capital of Galaxy immediately after Completion (assuming that there is no change in its issued share capital from the date of this announcement to Completion, save for the issue of the Subscription Shares and the Conversion Shares at Completion).

Conditions: Completion is conditional upon the fulfilment of the following:

- the passing by the shareholders of Galaxy (being such shareholders as are allowed to vote under the Listing Rules or permitted by the Stock Exchange to vote) at an extraordinary general meeting of Galaxy of a resolution to:
  - (i) approve the Subscription Agreement and the transactions contemplated under the Subscription Agreement;
  - (ii) approve the Anti-Dilution Rights;

- listing of and permission to deal in all the Subscription Shares being granted by the Listing Committee of the Stock Exchange and such listing and permission not subsequently being revoked prior to the Completion Date;
- all of the conditions precedent to the Share Purchase Agreement (other than the conditions precedent relating to the satisfaction or waiver of the conditions precedent in the Subscription Agreement and the FRN Agreement) being satisfied or waived in accordance with the terms thereof; and
- all of the conditions precedent to the FRN Agreement (other than the conditions precedent relating to the satisfaction or waiver of the conditions precedent in the Subscription Agreement and the Share Purchase Agreement) being satisfied or waived in accordance with the terms thereof.

If the Conditions are not each satisfied by 5:00 p.m. on 31 December, 2007 or such later date as may be agreed between Galaxy and the Permira Investment Vehicles, the Subscription Agreement shall automatically terminate and none of the parties will have any claim against the others for costs, damages, compensation or otherwise save for any antecedent breach.

Information Rights:

The Permira Directors will have reasonable access to information which the other directors of Galaxy have customarily had access to.

Permira Investment Vehicle  
Covenants:

Each Permira Investment Vehicle covenants with Galaxy:

- that for as long as the Permira Investment Vehicles in aggregate beneficially hold at least fifty per cent. (50%) of the Applicable Shares, it shall, and it shall procure that its direct and indirect holding companies (but excluding for the avoidance of doubt, the Permira Fund and any investors in the Permira Fund or their direct or indirect holding companies) shall, not directly or indirectly own or Control an aggregate of more than ten per cent. (10%) of the voting rights of any Competitor;

- not to Transfer any Applicable Share or any interest in any Applicable Share for the Lock Up Period. Each of the Permira Investment Vehicles may Transfer its shares after the Lock Up Period provided that any Transfer that is not an on-market sale undertaken within eight (8) years of the Completion Date is not to a Competitor or a Restricted Person;
- that it will take all reasonable steps to ensure that any Transfer of Galaxy Shares by it will not create a disorderly market in the Galaxy Shares;
- that if the aggregate shareholding of the Permira Investment Vehicles falls to a level which is less than five per cent. (5%) of the issued share capital of Galaxy, it shall forthwith inform Galaxy in writing of any Transfer by it and, separately, on a monthly basis, the level of its shareholding in Galaxy and shall as soon as reasonably practicable inform and notify Galaxy of any other changes in its shareholding thereafter provided that such obligations shall automatically cease if the Permira Investment Vehicles' aggregate shareholding falls to a level less than 25 per cent. (25%) of the Applicable Shares; and
- that after Completion, save as a result of exercising its Anti-Dilution Rights, it will not acquire any Shares if immediately thereafter Galaxy might reasonably be expected to breach the "public float" requirements under the Listing Rules.

**Anti-Dilution Rights:**

The Permira Investment Vehicles will be entitled to subscribe for additional Galaxy Shares, securities convertible or exchangeable into Galaxy Shares or any warrants or other rights to subscribe for Galaxy Shares in order to maintain its percentage shareholding as a result of equity or equity linked capital issues. The price and terms upon which the Permira Investment Vehicles will be entitled to subscribe for such additional Galaxy Shares, warrants or other rights will be the same as such equity or equity linked capital issues are offered or made to third parties. On Completion the Permira Investment Vehicles will together be a substantial shareholder of Galaxy and therefore a connected person of Galaxy (as such terms are defined in the Listing Rules). Exercise of the Permira Investment Vehicles rights will be a connected transaction of Galaxy and as a result they are subject to the approval of the Galaxy Independent Shareholders.

The term of the Anti-Dilution Rights will be for three years from Completion.

Galaxy Shares that may fall to be issued by reason of the Anti-Dilution Rights will not fall within the general mandate to issue shares that may be granted to the Galaxy directors from time to time and subject to approval of the Anti-Dilution Rights at the Galaxy EGM. No further approval of the Galaxy Shareholders will be required for the issue of Galaxy Shares on exercise of Anti-Dilution Rights.

The Anti-Dilution Rights will cease to be of any effect on the earlier of:

- the Permira Fund ceasing to have a beneficial interest (whether direct or indirect) of at least ninety per cent. (90%) of the voting rights of the Permira Investment Vehicles or either of them;
- the Permira Investment Vehicles, in aggregate, ceasing to beneficially hold at least fifty per cent. (50%) of the Applicable Shares; and
- the third anniversary of the Completion Date.

## **Share Purchase Agreement**

Set out below is a summary of the principal terms of the Share Purchase Agreement:

Date: 8 October, 2007

Parties to the Share Purchase Agreement:

1. Sutimar, a wholly-owned subsidiary of KWIH, as the vendor;
2. the Permira Investment Vehicles, as purchasers; and
3. KWIH as guarantor of the obligations of Sutimar.

Subject matter: Sutimar agreed conditionally to sell to the Permira Investment Vehicles on a several basis the Sale Shares at the Transaction Price.

The Sale Shares represent about 13.7% of the existing issued share capital of Galaxy and about 11.96% of the enlarged issued share capital of Galaxy immediately after Completion (assuming that there is no change in its issued share capital from the date of this announcement to Completion, save for the issue of the Subscription Shares and the Conversion Shares at Completion).

Consideration: The Transaction Price is HK\$8.42 per Sale Share, or HK\$3,810,050,000 in aggregate, which will be satisfied in cash at Completion.

Conditions: Completion is conditional on the following:

- the Subscription Agreement having become unconditional in accordance with its terms (save for any condition requiring the Share Purchase Agreement to have become unconditional or to have been completed);
- the passing by the shareholders of KWIH (being such shareholders as are allowed to vote under the Listing Rules or permitted by the Stock Exchange to vote) at a special general meeting of KWIH or by written consent, if applicable, of an ordinary resolution approving the sale of the Sale Shares pursuant to the Share Purchase Agreement and such consent remaining in full force and effect as at Completion; and
- full compliance by KWIH with all relevant regulatory requirements, including relevant rules of the Listing Rules, relevant to the performance by it of its obligations under the Share Purchase Agreement.

None of the conditions precedent is capable of being waived unilaterally.

If the Conditions are not each satisfied by 5:00 p.m. on 31 December, 2007 or such later date as may be agreed between Sutimar and the Permira Investment Vehicles, the Share Purchase Agreement shall automatically terminate with immediate effect and none of the parties will have any claim against the other for costs, damages, compensation or otherwise save for any antecedent breach.

Completion: Completion of the Share Purchase Agreement is to take place simultaneously with completion of the Subscription Agreement and the FRN Agreement.

## Investors' Rights Agreement

Set out below is a summary of the principal terms of the Investors' Rights Agreement:

Date: 8 October, 2007

Parties to the Permira Investment Vehicle Rights Agreement:

1. Galaxy;
2. Permira SPV I;
3. Permira LP.; and
4. the Major Shareholders.

Subject matter: The grant of certain rights to Permira SPV I.

Conditions: None

Although the Investors' Rights Agreement is a continuing connected transaction for Galaxy under Chapter 14A of the Listing Rules, it has no monetary value and is thus exempt from any requirement of shareholders' approval. However, if the Subscription Agreement lapses or is terminated, so will the Investors' Rights Agreement.

Nomination: For as long as the Permira Investment Vehicles beneficially hold, in aggregate: (i) more than seventy-five per cent. (75%) of the Applicable Shares, Permira SPV I acting on the instruction of Permira LP shall be entitled to nominate two, and for so long as the Permira Investment Vehicles beneficially hold in aggregate more than fifty per cent. (50%) but less than seventy-five per cent. (75%) of the Applicable Shares Permira SPV I acting on the instruction of Permira LP shall be entitled to nominate one, individual(s) to be appointed as non-executive director(s) (which shall be the same individual(s) for all the Relevant Boards) to the Galaxy Board and, subject to obtaining any required consent or approval from a relevant Authority, to the Relevant Boards. The identities of the Permira Directors shall be subject to the prior written approval of Galaxy (such approval not to be unreasonably withheld or delayed) and such approval shall be given by Galaxy if the person so nominated by Permira SPV I acting on the instruction of Permira LP is a partner of Permira Advisers LLP (unless such person is, or has been, a director or officer of a Competitor).

In the event that the Permira Investment Vehicles cease to hold an aggregate beneficial shareholding in Galaxy satisfying the thresholds set out above, Permira SPV I will have ten days to procure the resignation of the relevant Permira Director(s).

One Permira Director will be entitled to be appointed to the executive committee of the Relevant Boards and any other committees (other than the audit committees) of the Relevant Boards.

Termination:

The Investors' Rights Agreement will terminate

- after Completion, with respect to a particular party (other than Galaxy or Permira LP), when such party ceases to hold any Shares having complied with the terms of the Investors' Rights Agreement;
- if after Completion, the Permira Fund ceases to have a beneficial interest (whether direct or indirect) of at least ninety per cent. (90%) of the voting rights of the Permira Investment Vehicles or either of them;
- if after Completion, the Permira Investment Vehicles, in aggregate, cease to beneficially hold at least fifty per cent (50%) of the Applicable Shares;
- if Completion does not occur by 8 January, 2008 or, if earlier, termination of the Subscription Agreement or the Share Purchase Agreement in accordance with their terms;
- if either of the Permira Investment Vehicles commits any material breach of or omits to observe any of its material obligations or undertakings under the Investors' Rights Agreement or the Shareholders' Agreement and such breach or omission is not cured or remedied with 10 Business Days after written notice of such breach or omission shall have been given to the Permira Investment Vehicles by a Major Shareholder or Galaxy; or
- the date occurring eight (8) years after the Completion Date.

## Shareholders' Agreement

Set out below is a summary of the principal terms of the Shareholders' Agreement:

Date: 8 October, 2007

Parties to the Shareholders' Agreement:

1. the Permira Investment Vehicles ; and
2. the Major Shareholders,

At the date of this announcement, the Major Shareholders hold a total of 1,496,551,874 Galaxy Shares, representing about 45.3% of the voting rights in Galaxy.

Subject matter: Each of the Major Shareholders and the Permira Investment Vehicles agrees (so far as is within its power but subject to all applicable laws and in the case of those Major Shareholders who are directors of a company, to their fiduciary duties) that, except with the prior written consent of the other parties up until Completion and thereafter up until the earlier of (A) the date occurring eight (8) years after the Completion Date or (B) the date on which the Permira Investment Vehicles, in aggregate, cease to beneficially hold at least fifty per cent. (50%) of the Applicable Shares:

- no member of the Galaxy Group will (except for any intra-Group arrangement) incur, or enter into or agree to enter into any agreement or facility to obtain, any borrowing, advance, credit or finance or other indebtedness or liability in the nature of borrowing the purpose of which is inconsistent with the nature of business or strategy of the Galaxy Group ("Borrowings") individually in respect of amounts of US\$5,000,000 or more or, when aggregated with Borrowings of all Galaxy Group companies over any twelve (12) month period, any Borrowings if such aggregated Borrowings equal US\$15,000,000 or more;

- it/he/she will not put forward any proposal for a, nor vote its/his/her Shares in favour of any proposed, voluntary delisting of Galaxy, save for any proposal for a delisting of the Galaxy Shares (i) in connection with an offer made pursuant to the Takeovers Code; or (ii) in connection with or after having obtained an alternative listing of all of the Galaxy Shares on an internationally recognised stock exchange; or (iii) in connection with an offer structured as the disposal of all or substantially all the assets of Galaxy coupled with a proposed distribution to shareholders;
- no fundamental change (including, without limitation, cessation) in the nature of the business or strategy of the Galaxy Group will occur;
- it/he/she will not acquire any voting rights in Galaxy if such acquisition will impose an obligation on the Permira Investment Vehicles, in the case of an acquisition of voting rights in Galaxy by a Major Shareholder, or the Major Shareholders in the case of an acquisition of voting rights in Galaxy by a Permira Investment Vehicle to make a mandatory offer for the Galaxy Shares provided that in the case of the Permira Investment Vehicles this shall not apply in connection with any voting rights acquired pursuant to their Anti-Dilution Rights; and
- it/he/she will not acquire any Shares if immediately thereafter Galaxy might reasonably be expected to breach the public float requirements under the Listing Rules save for any acquisitions by the Permira Investment Vehicles pursuant to their Anti-Dilution Rights.

Each Major Shareholder agrees (so far as is within its power as a Shareholder but subject to all applicable laws and, in the case of those Major Shareholders who are directors of any company, subject to their fiduciary duties as a director in the context of any action they take or cause to be taken as a director) to take, or cause to be taken, all actions, and to do, or cause to be done all things necessary to ensure that the Galaxy Shares held by the Major Shareholders and those Galaxy Shareholders with whom they are acting in concert (other than the Permira Investment Vehicles) constitute at all times (up until the Completion Date and thereafter up until the earlier of (A) the date occurring eight (8) years after the Completion Date or (B) the date on which the Permira Investment Vehicles, in aggregate, cease to beneficially hold at least fifty per cent. (50%) of the Applicable Shares):

- the single largest Galaxy Shareholder (as a group); and
- no less than thirty five per cent. (35%) of the then issued share capital of Galaxy.

### **Transfers of shares**

Each of the Major Shareholders and the Permira Investment Vehicles agree not to Transfer any Galaxy Share or any interest in any Galaxy Share for the Lock Up Period, save for certain limited Transfers (details of which will be set out in the Circular). Thereafter, and up to a period of eight years after the Completion Date, any sale that is not made on the Stock Exchange must not be to a Competitor or a Restricted Person.

Each Permira Investment Vehicle shall be deemed to have breached the said agreement if the Permira Fund ceases to have a beneficial interest (whether direct or indirect) of at least ninety per cent. (90%) of the voting rights of each Permira Investment Vehicle within the Lock Up Period and following the Lock Up Period, each Permira Investment Vehicle shall be deemed to have breached it if a Competitor or a Restricted Person acquires any interest in such Permira Investment Vehicle.

For so long as the Permira Investment Vehicles beneficially hold in aggregate more than fifty per cent. (50%) of the Applicable Shares, each undertakes that it will not hold directly or indirectly, on an aggregated basis, more than ten per cent. of the voting shares of any Competitor.

### **Tag along rights**

For the period from Completion to the earlier of the date occurring eight (8) years after the Completion Date and when the Permira Investment Vehicles, in aggregate, cease to beneficially hold at least twenty-five per cent. (25%) of the Applicable Shares, any proposed Transfer by a Major Shareholders save for certain limited transfers (details of which will be set out in the Circular) will not be made unless:

- the Permira Investment Vehicles have given their written consent to such Transfer; or
- the proposed purchaser has made an offer in writing to purchase such number of Galaxy Shares held by the Permira Investment Vehicles as described below.

If the said offer is or has not been made in accordance with the terms of the Shareholders' Agreement, the Permira Investment Vehicles have the right to sell such number of Galaxy Shares to the relevant Major Shareholders.

The Permira Investment Vehicles shall be entitled to Transfer such portion of Applicable Shares which they beneficially hold at that time to the proposed purchaser or such Major Shareholder which is equal to the portion of Galaxy Shares that the proposed seller proposes to sell in relation to the Major Shareholders' aggregate holding of Galaxy Shares (prior to such Transfer).

## **Rights of first offer**

For the period from the Completion Date to the earlier of the date occurring eight (8) years after Completion Date and the date when the Permira Investment Vehicles, in aggregate, cease to beneficially hold at least twenty-five per cent. (25%) of the Applicable Shares, any proposed Transfer of Galaxy Shares by the Permira Investment Vehicles, save for certain limited transfers (details of which will be set out in the Circular), will be subject to rights of first offer in favour of the Major Shareholders.

### Termination:

The Shareholders' Agreement will terminate:

- if after Completion, with respect to a particular party, when such party ceases to hold any Shares having complied with the terms of the Shareholder Agreement;
- if after Completion, the Permira Fund ceases to have a beneficial interest (whether direct or indirect) of at least ninety per cent. (90%) of the voting rights of the Permira Investment Vehicles or either of them;
- if after Completion, the Permira Investment Vehicles, in aggregate, cease to beneficially hold at least twenty-five per cent. (25%) of the Applicable Shares;
- if Completion does not occur by 8 January, 2008 or, if earlier, termination of the Subscription Agreement or the Share Purchase Agreement in accordance with their terms;
- if either of the Permira Investment Vehicles commits any material breach of or omits to observe any of its material obligations or undertaking under the Shareholders' Agreement and such breach or omissions is not cured or remedied with 10 Business Days after written notices of such breach or omission shall have been given to the Permira Investment Vehicles by a Major Shareholder; or
- if, for so long as the Permira Investment Vehicles, in aggregate, beneficially hold at least fifty per cent (50%) of the Applicable Shares, a Competitor acquires or holds a shareholding or beneficial interest in either of the Permira Investment Vehicles or their direct holding companies which are subsidiaries of the Fund.

## FRN Agreement

Set out below is a summary of the principal terms of the FRN Agreement:

Date: 8 October, 2007

Parties to the FRN Agreement: 1. Galaxy; and  
2. the Noteholders.

Subject matter: Galaxy agreed conditionally to convert HK\$1,320,289,680 of the principal amount of the FRNs into new Shares at the Transaction Price per Conversion Share and to repay the balance. All accrued and unpaid interest on the FRNs will be paid in cash at Completion.

Conversion Shares: The Conversion Shares represent about 4.7% of the existing issued share capital of Galaxy and about 4.1% of the enlarged issued share capital of Galaxy immediately after Completion (assuming that there is no change in its issued share capital from the date of this announcement to Completion save for the issue of the Subscription Shares and the Conversion Shares at Completion).

Conditions precedent: The repayment and conversion of the FRNs is conditional upon satisfaction of the following conditions precedent:

- (i) the FRN Agreement and the transactions contemplated under it including the issue and allotment of the Conversion Shares all having been approved by resolution of the shareholders (or such of them as are not required to abstain from voting by the Stock Exchange) of Galaxy in general meeting taken on a poll;
- (ii) listing of and permission to deal in the Conversion Shares having been granted by the Stock Exchange and not having been revoked and the Stock Exchange not having indicated that it will revoke or suspend the listing of Galaxy by reason of Completion; and
- (iii) all of the conditions precedent to the Subscription Agreement and the Sale and Purchase Agreement (other than the conditions precedent relating to the satisfaction of the conditions precedent in the FRN Agreement) being satisfied as waived in accordance with the terms thereof.

None of the Conditions is capable of being waived.

The parties shall each use their reasonable endeavours and co-operate to ensure the fulfilment of the Conditions. If any of the Conditions has not been fulfilled by 31 December, 2007 (or such later date as the Noteholders jointly and Galaxy may agree in writing) then Galaxy may by notice to the other parties thereto elect to terminate the FRN Agreement.

**Completion:** Completion of the Subscription Agreement and the Sales and Purchase Agreement shall take place simultaneously with Completion of the FRN Agreement to the intent that none of them shall be completed unless all are completed at or about the same time.

### **The FRNs**

The FRNs were initially issued by Galaxy in July 2005 as part of an issue in the aggregate principal amount of HK\$2,544,239,603 of which HK\$172,434,536 principal amount has been repaid. The FRNs are not convertible by their terms and contain terms to the effect set out below.

**Principal amount outstanding:** HK\$2,371,805,067

**Due:** 30 September, 2008

**Status:** The obligations under the FRNs constitute general, unsecured obligations of Galaxy and rank equally among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of Galaxy.

**Interest:** Interest is currently 6% p.a. which is cumulative and compounded annually and will be paid when the FRNs are repaid, or on maturity.

No dividends may be declared by Galaxy as long as the FRNs are outstanding unless all interest accrued up to the date of declaration of dividends shall first be paid.

**Redemption:** Galaxy may redeem the FRNs at face value plus interest accrued and unpaid at any time on giving 3 business days' irrevocable prior written notice.

Galaxy may redeem the FRNs at its discretion from the net proceeds of any equity-related fund raising exercise.

## **Listing**

Application will be made to the Stock Exchange for the listing of and permission to deal in the Subscription Shares and the Conversion Shares. Appropriate steps will be taken before Completion to ensure that not less than 25% of the Galaxy Shares will be held by the public immediately after Completion. These may include disposals of Galaxy Shares by Galaxy Shareholders who do not form part of the public for the purposes of the Listing Rules and/or issues of new Galaxy Shares to persons who do form part of the public for the purposes of the Listing Rules and further information will be included in the Circular. The Stock Exchange has advised Galaxy that listing of and permission to deal in the Subscription Shares and Conversion Shares will not be granted if as a result of their issue there will be insufficient Galaxy Shares in public hands.

## **Anti-Dilution Rights**

A specific mandate will be proposed at the Galaxy EGM for the issuance of new Galaxy Shares under the Anti-Dilution Rights.

The exercise of the rights will be subject to the Listing Rules. The Stock Exchange has indicated that the issue of Galaxy Shares pursuant to the exercise of the Anti-Dilution Rights will be subject to the following conditions:

- (a) the pricing of any new Galaxy Shares in respect of which the Permira Investment Vehicles are entitled to exercise their Anti-Dilution Rights must be approved by the Galaxy Directors (including the independent non-executive Galaxy Directors) who do not have a direct interest in the transaction and who are not connected with the Permira Investment Vehicles or their associates;
- (b) where the Galaxy Shares to be issued pursuant to the exercise of the Anti-Dilution Rights is at a discount of more than 10% to the benchmark price, being the higher of:
  - (i) the closing price on the date of exercise relating to the proposed issue of Galaxy Shares in respect of the Anti-Dilution Rights; and
  - (ii) the average closing price in the five trading days immediately prior to the earlier of:
    - (1) the date of the announcement in respect of the proposed issuance of Galaxy Shares in respect of the Anti-Dilution Rights (if any);
    - (2) the date of the relevant exercise of the Anti-Dilution Rights; and
    - (3) the date on which the subscription price in respect of the exercise of the Anti-Dilution Rights is fixed,

an independent financial adviser's opinion on the fairness of the price or value at which new Galaxy Shares are to be issued to the Permira Investment Vehicles will be required, in addition to the approval of the Galaxy Directors described above, and Galaxy will be required to include

reference to this opinion in any announcement to be issued by Galaxy in relation to the issue of new Galaxy Shares pursuant to the exercise of the Anti-Dilution Rights by the Permira Investment Vehicles; and

- (c) where the new Galaxy Shares to be issued pursuant to the exercise of the Anti-Dilution Rights by the Permira Investment Vehicles is at a discount of 20% or more to the benchmark price (described above), the approval of independent Galaxy Shareholders will be required in advance of such issue;
- (d) the issue price to the Permira Investment Vehicles upon the exercise of the Anti-Dilution Rights should be no less than the price offered to independent third parties; and
- (e) the maximum number of new Galaxy Shares that may be issued under the Anti-Dilution Rights cannot exceed the number of Galaxy Shares available at Completion of issue under the general mandate granted to the Galaxy directors at the annual general meeting of Galaxy held on 26 June 2007. Assuming that no Galaxy Shares are issued pursuant to that mandate, after the date of this announcement and before Completion the maximum number of Galaxy Shares issuable under the Anti-Dilution Rights is 660,358,272. Any issue of Galaxy Shares to the Permira Investment Vehicles in excess of that number will be subject to the requirements of Chapter 14A of the Listing Rules.

## **THE SUBSCRIPTION AGREEMENT, THE FRN AGREEMENT, THE INVESTORS' RIGHTS AGREEMENT AND THE SHAREHOLDERS' AGREEMENT**

### **Reasons for the Subscription, the FRN Agreement, the Investors' Rights Agreement, and the Shareholders' Agreement**

Galaxy'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 in Hong Kong, Macau and the PRC.

The Galaxy Board believes that the injection of significant permanent capital by the Permira Investment Vehicles and the Noteholders (in the form of the Conversion Shares) and the related elimination of the significant debt represented by the FRNs will greatly improve the capital structure and the financial flexibility of Galaxy, especially in funding its substantial development and capital investments in Macau. Early redemption of the FRNs will also reduce the interest payable and improve, in accounting terms, the profitability of Galaxy.

The advisers who operate under the name "Permira", including, Permira Advisers LLP, together are a leading international private equity firm with a track record of more than twenty years of helping to build businesses. Over this time, Permira has raised 19 funds totalling approximately Euro 22 billion (approximately HK\$240 billion at the exchange rate Euro 1= HK\$10.9). The leisure, retail and consumer sectors represent 40% of the funds invested by Permira over the last decade, with portfolio

companies including *Cortefiel*, *Ferretti*, *Hugo Boss*, and *Valentino*. In particular, Permira has deep expertise in the international gaming sector through its investments in *Gala Coral*, Europe's largest gaming company, and in *Sisal*, the second largest lotto operator in Italy.

The Galaxy Board believes that the Permira Fund's connections and resources will be helpful in the business development of Galaxy and the Permira Directors will bring to the Galaxy Group the benefit of great expertise in governance and financing skills and backing that may be of benefit to it.

### **Directors and Management of Galaxy**

Pursuant to the Investors' Rights Agreement and subject to the limitations described under "Investors' Rights Agreement" in the section headed "The Agreements", Galaxy will appoint two nominees of Permira SPV I to the Galaxy Board and the Relevant Boards and will put forward resolutions for such appointment at the Galaxy EGM. It is not intended there will be any other change in the executive or non-executive directors or the management of Galaxy as a result of Completion.

At the date of this announcement, save as disclosed herein, none of the Family Companies, the Lui Family, the Galaxy Directors and parties acting in concert with any of them has any interest in any Galaxy Shares and/or Employee Options.

### **Subscription Agreement — use of proceeds by Galaxy**

Galaxy intends to use the proceeds received from the Subscription Agreement to fund (i) gaming related business, (ii) facility development, (iii) acquisition opportunities, (iv) general working capital, and (v) a restructuring of the Galaxy Group's debt profile including but not limited to the repayment of fifty per cent. (50%) of the FRNs outstanding in furtherance of the terms of the FRN Agreement. About HK\$1,320,000,000 of the net proceeds will be used to finance the repayment of FRNs.

In general, gaming related business and facility development will include but not be limited to investment in food and beverage outlets and spas and development of convention facilities, shopping malls and theatres and familiar facilities at Galaxy's Cotai site. Galaxy has not identified any specific acquisition opportunity.

The Galaxy Directors consider that the issue of the Subscription Shares and the conversion of the FRNs will represent a substantial improvement to the capital structure of Galaxy and an opportunity to reduce significantly the gearing of Galaxy and replace the debt represented by the FRNs with permanent capital. Successful Completion will substantially enhance the financial flexibility of Galaxy for future development programs while broadening the shareholder and capital base of Galaxy. On conversion and repayment of the FRNs, no member of the Galaxy Group will have any material liability outstanding to a connected person of the Galaxy Group.

## Fund raising by Galaxy in the past 12 months

<b>Date of announcement</b>	<b>Event</b>	<b>Net proceeds</b>	<b>Intended use of proceeds as stated in the announcement</b>	<b>Actual use of proceeds</b>
6 December, 2006	Galaxy Convertible Bonds issue	approx. US\$235,150,000	Funding expansion of the Galaxy's Galaxy World Mega Resort and working capital	Same as intended use

Save as disclosed above, Galaxy has not carried out any capital fund raising activities in the 12 months preceding the date of this announcement.

### Galaxy — Relevant requirements of the Listing Rules

The Noteholders are connected persons of Galaxy and the FRN Agreement is thus a connected transaction for Galaxy. The Subscription Agreement, and the FRN Agreement are conditional upon, amongst other things, the approval of the Galaxy Independent Shareholders and the Investors' Rights Agreement will lapse if the Subscription Agreement is not completed. Voting will be conducted by way of poll. The Major Shareholders (including the Noteholders), KWIH, members of the Lui Family and their respective associates will abstain from voting.

No member of the Galaxy Group is party to the Shareholders Agreement and it has no implications for Galaxy under the Listing Rules.

KWIH and persons acting in concert with it (being Dr. Lui, City Lion, Super Focus, Mark Liaison and Premium Capital) hold 60.40% of the issued share capital of Galaxy at the date of this announcement.

The Galaxy Directors including the independent non executive Galaxy Directors consider that each of the Subscription Agreement, the Investors' Rights Agreement and the FRN Agreement is on normal commercial terms and that such terms are fair and reasonable and in the interests of Galaxy and its shareholders as a whole (but the views of the Galaxy Independent Board Committee are subject to review when it receives the advice of an independent financial adviser). The views and recommendations of the Galaxy Independent Board Committee in respect of the transactions contemplated by the FRN Agreement will be set out in the Circular.

The Galaxy Independent Board Committee comprising of Mr. James Ross Ancell and Dr. William Yip Shue Lam has been constituted to make recommendations to the Galaxy Independent Shareholders in relation to the FRN Agreement. Galaxy has appointed Commerzbank AG Hong Kong Branch as the independent financial adviser to advise the Galaxy Independent Board Committee and the Galaxy Independent Shareholders in relation to the FRN Agreement.

## Galaxy Convertible Bonds

No element of the proposals requires approval or consent under the Galaxy Convertible Bonds and no element will result in an adjustment to any terms of the Galaxy Convertible Bonds save that the conversion price will be adjusted as a result of the issue of the Subscription Shares and the Conversion Shares.

## Changes to the shareholding in Galaxy as a result of the Proposals

The beneficial interests in Galaxy of Dr. Lui, KWIH, their respective associates and parties acting in concert with them, the directors of Galaxy and KWIH and their respective associates, the Permira Investment Vehicles and the shareholdings of the public shareholders in Galaxy are and will be as set out below in the circumstances set out below:

	Before Completion		Immediately after Completion but before exercise of any of the Galaxy Convertible Bonds and Employee Options (Note 4)		Immediately after Completion and full exercise of the Employee Options (Note 4) but before exercise of any of the Galaxy Convertible Bonds (Note 5)		Immediately after Completion and full exercise of the Galaxy Convertible Bonds (Note 5) but before exercise of any of the Employee Options (Note 4)		Immediately after Completion and full exercise of the Galaxy Convertible Bonds (Note 5) and Employee Options (Note 4)	
	No. of Galaxy Shares	%	No. of Galaxy Shares	%	No. of Galaxy Shares	%	No. of Galaxy Shares	%	No. of Galaxy Shares	%
Major Shareholders (including the Noteholders)	1,496,551,874	45.31	1,653,355,874	43.70	1,676,395,874	43.84	1,653,355,874	41.46	1,676,395,874	41.61
Lui Family members (other than Major Shareholders)	224,304,664	6.79	224,304,664	5.93	227,804,664	5.96	224,304,664	5.62	227,804,664	5.65
KWIH	614,984,047	18.62	162,484,047	4.30	162,484,047	4.25	162,484,047	4.07	162,484,047	4.03
Directors of Galaxy (other than Lui Family members)	2,752,533	0.08	2,752,533	0.07	7,152,533	0.19	2,752,533	0.07	7,152,533	0.18
Other connected person of Galaxy (Note 3)	82,250,410	2.49	82,250,410	2.17	82,250,410	2.15	82,250,410	2.06	82,250,410	2.04
Permira Fund	0	0	775,884,000	20.51	775,884,000	20.29	775,884,000	19.46	775,884,000	19.26
Public shareholders	<u>881,970,833</u>	<u>26.70</u>	<u>881,970,833</u>	<u>23.31</u>	<u>891,885,833</u>	<u>23.32</u>	<u>1,086,784,837</u>	<u>27.25</u>	<u>1,096,699,837</u>	<u>27.22</u>
Total	<u>3,302,814,361</u>	<u>100</u>	<u>3,783,002,361</u>	<u>100</u>	<u>3,823,857,361</u>	<u>100</u>	<u>3,987,816,365</u>	<u>100</u>	<u>4,028,671,365</u>	<u>100</u>

### Notes:

- The above percentages are calculated on the assumption that other than on the exercise of the Galaxy Convertible Bonds and the Employee Options there is no change in the issued share capital of Galaxy from the date of this announcement to Completion.

2. As stated in the section headed “General” below, it is the intention to maintain the listing of Galaxy on the Stock Exchange after Completion. Appropriate steps will be taken before Completion to ensure that not less than 25% of the Galaxy Shares will be held by the public immediately after Completion. These may include disposals of Galaxy Shares by Galaxy Shareholders who do not form part of the public for the purposes of the Listing Rules and/or issues of new Galaxy Shares to persons who do form part of the public for the purposes of the Listing Rules and further information will be included in the Circular. The Stock Exchange has advised Galaxy that listing of and permission to deal in the Subscription Shares and Conversion Shares will not be granted if as a result of their issue there will be insufficient Galaxy Shares in public hands.
3. “Other connected person” of Galaxy refers to Future Leader Management Limited, a company controlled by Mr. Pedro Ho On Chun, who is a director of a subsidiary of Galaxy.
4. At the date of this announcement, members of the Lui Family are interested in options, granted under the Employee Options, over an aggregate of 26,540,000 Galaxy Shares. Other Galaxy Directors who are not members of the Lui Family are interested in options, granted under the Employee Options, over an aggregate of 4,400,000 Galaxy Shares. The particulars of the Employee Options will be set out in the Circular.
5. The conversion price for the Galaxy Convertible Bonds now in effect is HK\$9.14.

### **No general offer implication for Galaxy**

Dr. Lui is the single largest and the controlling shareholder of KWIH. Through the direct shareholding of City Lion in Galaxy immediately after Completion, the Principal Trust will continue to have Control of Galaxy. The Disposal, issue of the Subscription Shares and issue of the Conversion Shares will not result in any general offer obligation under the Takeovers Code.

## **THE DISPOSAL**

### **Reasons for the Disposal**

For the financial year ended 31 December, 2006, the consolidated turnover, profit before taxation and profit after taxation of KWIH were respectively HK\$275,956,000, HK\$1,008,763,000 and HK\$701,744,000.

For the year ended 31 December, 2006, Galaxy reported an audited consolidated net loss (before tax) of HK\$1,525,662,000 and (after tax) of HK\$1,531,510,000. For the year ended 31 December 2005, it reported an audited consolidated net profit (before tax) of HK\$2,398,388,000 and (after tax) of HK\$2,396,705,000.

KWIH’s principal business is property investment and development in Hong Kong, the PRC and South East Asia and its interest in Galaxy, which was formerly a subsidiary of KWIH, represents the balance of its former controlling stake. In 2005, Galaxy acquired control of Galaxy Casino S.A. and has subsequently become a major developer and operator of casino and gaming facilities and related leisure facilities in Macau. As a result the business of the Galaxy Group bears little connection with the core business of the KWIH Group and KWIH believes that as a result the business focus of the KWIH

Group is not clear to the market. The executive directors of KWIH believe that the Disposal will be of benefit to KWIH as it will help clarify the focus of the KWIH Group and raise significant cash for growth of KWIH.

On Completion, KWIH's shareholding in Galaxy will be reduced from 18.6% to 4.3% (assuming that there will be no change in Galaxy's issued share capital from the date of this announcement to Completion save for the issue of the Subscription Shares and Conversion Shares at Completion).

### **Use of proceeds of the Disposal by KWIH**

KWIH intends to apply the proceeds of about HK\$3,810,050,000 from the Disposal to finance its property development business as well as for investment opportunities, if any, and general working capital.

### **KWIH — Relevant requirements of the Listing Rules**

The consideration payable to KWIH for the Sale Shares represents approximately 31.9% of the total market capitalisation of KWIH as at 5 October, 2007. Consequently, the Disposal constitutes a major transaction for KWIH pursuant to the Listing Rules.

The Disposal constitutes a transaction between a listed issuer (namely, KWIH), and the Permira Investment Vehicles (each an Independent Third Party) which involves KWIH disposing of an interest in a company (namely, Galaxy) a substantial shareholder of which, namely Dr. Lui, is a controller and is thus a connected transaction of KWIH as within rule 14A.13(1)(b)(i) of the Listing Rules. It is conditional upon, amongst other things, the approval of the KWIH Independent Shareholders. Voting will be conducted by way of poll. Dr. Lui, his spouse and companies controlled by him, members of the Lui Family and their respective associates will abstain from voting.

The KWIH Directors including the independent non-executive KWIH Directors consider that the Disposal is on normal commercial terms and that such terms are fair and reasonable and in the interests of KWIH and its shareholders as a whole (but the views of the KWIH Independent Board Committee are subject to review). The views and recommendations of the KWIH Independent Board Committee in respect of the transactions contemplated by the Share Purchase Agreement will be set out in the Circular.

The KWIH Independent Board Committee comprising of Sir David Akers-Jones, Dr. The Hon. Leo Lee Tung Hai, Dr. Robin Chan Yau Hing and Mr. Robert George Nield has been constituted to make recommendations to the KWIH Independent Shareholders in relation to the Disposal. KWIH will appoint an independent financial adviser to advise the KWIH Independent Board Committee and the KWIH Independent Shareholders in relation to the Disposal and will announce the appointment as soon as practicable.

## **Gain on disposal by KWIH**

Immediately upon Completion and assuming that there will be no change in the issued share capital of Galaxy from the date of this announcement and up to Completion (save for the issue of the Subscription Shares and the Conversion Shares), KWIH's interest in Galaxy will be reduced from approximately 18.6% to 4.3%. KWIH's gain on the disposal of the Sale Shares is estimated to amount to approximately HK\$1,470,625,000. The estimated gain on disposal by KWIH is calculated on the basis of the aggregate Transaction Price for the Sale Shares.

## **KWIH Bonds**

No element of the proposals requires approval or consent under the KWIH Bonds and no element will result in an adjustment to any terms of the KWIH Bonds.

## **Information about Permira Advisers LLP and Permira Investment Vehicles**

Permira Advisers LLP, Permira LP and the Permira Investment Vehicles and their ultimate beneficial owners are Independent Third Parties of Galaxy and KWIH, and their respective connected persons.

The Permira Investment Vehicles are newly established special purpose vehicles whose principal business will be to hold the Subscription Shares and Sale Shares. Permira LP is the beneficial owner of Permira SPV I.

KWIH, Sutimar and the Permira Investment Vehicles have received from Penta, a company that owns approximately 15.79% of the issued voting shares in KWIH, an undertaking to vote in favour of the resolution to approve the Share Purchase Agreement at the KWIH SGM.

## **GENERAL**

### **Listing status**

**It is the intention to maintain the listing of Galaxy on the Stock Exchange after Completion. Appropriate steps will be taken before Completion to ensure that not less than 25% of the Galaxy Shares will be held by the public immediately after Completion.** These steps may include the issue of new Galaxy Shares and/or placing down by KWIH and/or the Family Companies of sufficient Galaxy Shares to Independent Third Parties. The Stock Exchange has advised Galaxy that listing of and permission to deal in the Subscription Shares and Conversion Shares will not be granted if as a result of their issue there will be insufficient Galaxy Shares in public hands.

**The Stock Exchange has stated that it will closely monitor the trading in the Galaxy Shares and in the KWIH Shares on the Stock Exchange. If the Stock Exchange believes that:**

- **a false market exists or may exist in the Galaxy Shares or the KWIH Shares; or**
- **there are too few Galaxy Shares in public hands to maintain an orderly market,**

**It will consider exercising its discretion to suspend trading in the Galaxy Shares or the KWIH Shares.**

## **Circular**

The Circular containing inter alia further particulars of the Disposal and the recommendations of the KWIH Independent Board Committee in respect of the Disposal, and further particulars of the Subscription Agreement, the FRN Agreement and the advice of the Galaxy Independent Board Committee in respect of the FRN Agreement, letters of advice from the independent financial adviser to the KWIH Independent Board Committee and the KWIH Independent Shareholders and from the independent financial adviser to the Galaxy Independent Board Committee and the Galaxy Independent Shareholders, and other information in compliance with the Listing Rules and notices convening the KWIH SGM and the Galaxy EGM will be sent to the KWIH Shareholders and the Galaxy Shareholders as soon as is practicable.

**As Completion is subject to the fulfilment of a number of conditions precedent the proposals may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the Galaxy Shares and/or in the KWIH Shares.**

## **Definitions**

In this announcement, unless the context otherwise requires, the following terms have the meanings set opposite them below:

- “Affiliate” means in relation to any person, any other person directly or indirectly Controlling, Controlled by or under common Control with, such person;
- “Agreements” the Share Purchase Agreement, the Subscription Agreement, the FRN Agreement and the Investors’ Rights Agreement, or such of them as the context may indicate;
- “Anti-Dilution Rights” the rights to be granted by Galaxy to the Permira Investment Vehicles described under “Anti-Dilution Rights” in the description of the Subscription Agreement in the section headed “The Agreements”;
- “Applicable Shares” the Initial Shares (as adjusted for any sub-division or consolidation of Shares), together with any Shares or other securities issued or received after the Completion Date and attributable to or derived from such Initial Shares (including Shares or other securities received in connection with a rights or bonus issue and any exercise of the Anti-Dilution Rights, but excluding Shares or other securities received pursuant to any scrip dividend declared and issued by Galaxy or as a scrip alternative to a cash dividend or acquired by an Investor other than pursuant to the Subscription Agreement or the Share Purchase Agreement);

“associate”	the meaning ascribed thereto in the Listing Rules;
“business day”	means a day other than a Saturday, Sunday or public holiday in England and Wales or Hong Kong;
“Circular”	the joint circular to be despatched by Galaxy and KWIH in connection with the Share Purchase Agreement, Subscription Agreement, FRN Agreement, Investors’ Rights Agreement and Shareholders Agreement;
“City Lion”	City Lion Profits Corp., a company incorporated in the British Virgin Islands and wholly owned by the Principal Trust;
“Competitor”	(1) any person who is a party to a concession contract of Macau for the Operation of Chance or Games of Other Forms with Macau (such person being a “Concessionaire”), (2) any person who is a party to a sub-concession contract of Macau for the Operation of Chance or Games of Other Forms with a Concessionaire (such person being a “Sub-Concessionaire”), (3) any VIP room operator, or a promoter licensed or regulated by the Macau Government, through the Gaming Inspection and Coordination Bureau (Direcção de Inspeção e Coordenação de Jogos); (4) any person who has a revenue and/or profit sharing or similar arrangement in respect of premises in Macau in which a gaming facility of forty (40) tables or more is operated (a “Third Party Participant”) (5) any director or senior manager of a Concessionaire, Sub-Concessionaire, Third Party Participant, VIP room operator or promoter who is licensed or regulated by the Macau Government, through the Gaming Inspection and Coordination Bureau (Direcção de Inspeção e Coordenação de Jogos); and (6) each of their respective Affiliates;
“Completion”	(i) completion of the sale and purchase of the Sale Shares pursuant to the Share Purchase Agreement; and (ii) completion of the subscription for and issue of the Subscription Shares pursuant to the Subscription Agreement and (iii) completion of the repayment of FRNs and issue of the Conversion Shares pursuant to the FRN Agreement (or completion of such one or more of them as the context may indicate);
“Completion Date”	the date on which Completion occurs;
“connected person”	the meaning ascribed thereto in the Listing Rules;
“Conditions”	in respect of any given Agreement the conditions to which it is subject as described in the description of the relevant Agreement in the section headed “The Agreements”;

“Control”	the power of a person to secure that the affairs of another person are conducted directly or indirectly in accordance with the wishes of that first person by means of being the beneficial owner of more than 50 per cent. (50%) of the voting rights of that other person, or having the right to appoint or remove a majority of the members of or otherwise control the votes at the board of directors (or its equivalent) of that other person, and “Controlling” and “Controlled” shall be construed accordingly;
“Conversion Shares”	an aggregate of 156,804,000 new Galaxy Shares to be issued to the Noteholders pursuant to the FRN Agreement;
“Disposal”	the proposed disposal of 452,500,000 Galaxy Shares by Sutimar, pursuant to the Share Purchase Agreement;
“Dr. Lui”	Dr. Che-Woo Lui, an executive director and the chairman of KWIH and of Galaxy;
“Employee Options”	options to subscribe for an aggregate of 40,855,000 Galaxy Shares granted pursuant to the employee share option schemes of Galaxy adopted on 10 October, 1996 and 30 May, 2002 respectively and outstanding at the date of this announcement, with exercise prices per Galaxy Share ranging from HK\$0.5333 to HK\$4.59;
“Encumbrance”	mortgage, charge, pledge, lien, option, restriction, right of first refusal, right of pre-emption, third party right or interest, other encumbrance or security interest of any kind, or another type of agreement or arrangement having similar effect;
“Family Companies”	City Lion, Netfinity and Recurrent Profits
“Francis Lui”	Mr. Francis Lui Yiu Tung, an executive director of Galaxy and of KWIH, a son of Dr. Lui and a member of the Lui Family;
“FRN Agreement”	an agreement dated 8 October, 2007 between Galaxy and the Noteholders in relation to the conversion and repayment of the FRNs;
“FRNs”	“Class B” Variable Rate Unsecured Loan Notes in aggregate principal amount of HK\$2,371,805,067 issued by Galaxy to the Noteholders on 22 July, 2005 (as subsequently amended on 14 January, 2006) and payable on 30 September, 2008;
“Galaxy”	Galaxy Entertainment Group Limited, a company incorporated in Hong Kong, the shares of which are listed on the Stock Exchange;
“Galaxy Board”	the board of Galaxy Directors;

“Galaxy Convertible Bonds”	US\$240,000,000 (initial principal amount) Zero Coupon Convertible Notes of Galaxy Due 2011, convertible into Galaxy Shares;
“Galaxy Directors”	the directors of Galaxy;
“Galaxy EGM”	the extraordinary general meeting of Galaxy to be convened for the purpose of approving, among other matters, the Subscription Agreement and the transactions contemplated thereunder and FRN Agreement and transactions contemplated thereunder;
“Galaxy Group”	Galaxy and its subsidiaries;
“Galaxy Independent Board Committee”	Mr. James Ross Ancell and Dr. William Yip Shue Lam, the independent committee of the Galaxy Board established to advise Galaxy Independent Shareholders on the FRN Agreement;
“Galaxy Independent Shareholders”	holders of Galaxy Shares other than shareholders who are required to abstain from voting under the Listing Rules or by the Stock Exchange;
“Galaxy Shares”	shares of HK\$0.10 each in the capital of Galaxy;
“Galaxy Shareholder(s)”	holder(s) of Galaxy Shares;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Third Party”	<ul style="list-style-type: none"> <li>— in respect of KWIH, a person who and whose ultimate beneficial owner, to the best knowledge, information and belief of the directors of KWIH having made all reasonable enquiries, is a third party independent of and not connected with KWIH, the Family Companies, or any connected persons of KWIH and not being a party acting in concert with Galaxy, Dr. Lui or their respective associates with respect to KWIH for the purpose of the Takeovers Code; and</li> <li>— in respect of Galaxy, a person who and whose ultimate beneficial owner, to the best knowledge, information and belief of the directors of Galaxy having made all reasonable enquiries, is a third party independent of and not connected with Galaxy, the Family Companies, or any connected persons of Galaxy and not being a party acting in concert with KWIH, Dr. Lui or their respective associates with respect to Galaxy for the purposes of the Takeovers Code;</li> </ul>

“Investors’ Rights Agreement”	an agreement dated 8 October, 2007 between Galaxy, the Permira SPV I, Permira IV L.P.1 and the Major Shareholders concerning the Permira SPV I’s right to appoint directors to the board of Galaxy amongst other things;
“Initial Shares”	the Sales Shares and the Subscription Shares;
“KWIH”	K. Wah International Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange;
“KWIH Board”	the board of KWIH Directors;
“KWIH Bonds”	HK\$864,260,000 (initial principal amount) 0.50% Guaranteed Convertible Bonds due 2009, convertible into fully-paid KWIH Shares and issued by a wholly-owned subsidiary of KWIH;
“KWIH Directors”	the directors of KWIH;
“KWIH Group”	KWIH and its subsidiaries;
“KWIH Independent Board Committee”	Sir David Akers-Jones, Dr. The Hon. Leo Lee Tung Hai, Dr. Robin Chan Yau Hing and Mr. Robert George Nield an independent committee of the KWIH Board established to advise KWIH Independent Shareholders on the Disposal;
“KWIH Independent Shareholders”	holders of KWIH Shares other than members of the Lui Family, Dr. Lui and their respective associates and companies controlled by them;
“KWIH Shareholders”	holders of KWIH Shares;
“KWIH SGM”	the special general meeting of KWIH to be convened for the purpose of approving, among other matters, the Disposal;
“KWIH Shares”	shares of HK\$0.10 each in the capital of KWIH;
“KWIH Shareholders”	holder(s) of KWIH Shares;
“Last Dealing Date”	in respect of Galaxy 2:30 p.m. on 5 October, 2007, being the last trading day for the Galaxy Shares prior to the suspension of dealings in Galaxy Shares at 2:30 p.m. on 5 October, 2007 and in respect of KWIH, 5 October, 2007, being the last trading day for the KWIH Shares prior to the suspension of dealings in the KWIH Shares at 9:30 a.m. on 8 October, 2007;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Lock Up Period”	a period of two years from the Completion Date;

“Lui Family”	all the sons and daughters of Dr. Lui, namely Francis Lui, Lawrence Lui, Ms. Paddy Tang Lui Wai Yu, Ms. Eileen Cheng Lui Wai Ling, and Mr. Alexander Lui Yiu Wah, their respective associates and companies controlled by them (excluding KWIH);
“Macau”	Macau Special Administrative Region of the PRC;
“Major Shareholders”	City Lion, Super Focus, Mark Liaison, Premium Capital, Dr. Lui, Recurrent Profits, Francis Lui, and Ms. Paddy Tang Lui Wai Yu all of which are also members of the Lui Family;
“Mark Liaison”	Mark Liaison Limited, a company incorporated in Hong Kong with limited liability and ultimately wholly-owned and controlled by Dr. Lui;
“Material Operating Subsidiary”	any subsidiary of Galaxy that has a management or operational function with respect to the business of the Galaxy Group and which (on an unconsolidated basis) contributes in excess of ten per cent. (10%) of the Galaxy Group’s consolidated revenue in any financial year;
“Merrill Lynch”	Merrill Lynch (Asia Pacific) Limited and Affiliates;
“Netfinity”	Netfinity Assets Corporation, a company incorporated in the British Virgin Island, and wholly-owned by Lawrence Lui, son of Dr. Lui and a member of the Lui Family;
“Noteholders”	City Lion and Recurrent Profits, both of which are also members of the Lui Family;
“Penta”	Penta Investment Advisers Limited, a company incorporated in British Virgin Islands and owned by Independent Third Parties, a substantial shareholder in KWIH and the holder of 15.79% of the KWIH Shares in issue at the date of this announcement;
“Permira Advisers LLP”	the advisers to the Permira Fund;
“Permira Director(s)”	the person(s) nominated by Permira SPV I to become Galaxy Directors as referred to in the Subscription Agreement and the Investors’ Rights Agreement;
“Permira Fund”	the private equity fund known as Permira IV and advised by Permira Advisers LLP;
“Permira Investment Vehicles”	Permira SPV I and Permira SPV II;

“Permira LP”	Permira IV L.P.1, a limited partnership registered in Guernsey under the Limited Partnerships (Guernsey) Law, 1995 (as amended), being one of the limited partnerships of the Permira Fund;
“Permira SPV I”	ENB LUX 1 S.à.r.l, a company incorporated in Luxembourg with limited liability, established, and wholly-owned, by the Permira Fund;
“Permira SPV II”	ENB LUX 2 S.à.r.l. a company incorporated in Luxembourg with limited liability, established and wholly-owned, by the Permira Fund;
“PRC”	The People’s Republic of China, excluding Hong Kong, Macau and Taiwan;
“Premium Capital”	Premium Capital Profits Limited, a company incorporated in the British Virgin Islands with limited liability and ultimately wholly-owned and controlled by Dr. Lui;
“Principal Trust”	a discretionary Lui Family trust established under the laws of Jersey, in respect of which HSBC International Trustee Limited is the sole trustee;
“Recurrent Profits”	Recurrent Profits Limited, a company incorporated in the British Virgin Islands and wholly-owned by Francis Lui;
“Relevant Boards”	the boards of directors of Galaxy Casino SA and any other Material Operating Subsidiary of Galaxy;
“Restricted Person”	any person who is regarded by the Galaxy (acting reasonably) to be unsuitable under applicable gaming laws in the U.S., the United Kingdom or Macau to directly or indirectly Control, operate or hold a gaming licence or a venue of gaming (physical or virtual) or a material interest therein; or who is regarded by Galaxy (acting reasonably) to be undesirable for the purposes of directly or indirectly Controlling, operating or holding a gaming licence or a venue of gaming (physical or virtual) or a material interest therein;
“Sale Shares”	the 452,500,000 Galaxy Shares to be sold by Sutimar under the Share Purchase Agreement;
“SFC”	the Securities and Futures Commission of Hong Kong;
“Share Purchase Agreement”	a Share Purchase Agreement dated 8 October, 2007 between Sutimar, the Permira Investment Vehicles and KWIH (as guarantor) in relation to the Disposal;
“Shareholders Agreement”	a Shareholders Agreement dated 8 October, 2007 between the Permira Investment Vehicles and the Major Shareholder;

“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subscription Agreement”	an agreement dated 8 October, 2007 between Galaxy, the Permira Investment Vehicles and Permira L.P. for the subscription by the Permira Investment Vehicles of 323,384,000 new Galaxy Shares in aggregate;
“Subscription Shares”	the 323,384,000 new Galaxy Shares to be issued by Galaxy to the Permira Investment Vehicles under the Subscription Agreement;
“Super Focus”	Super Focus Company Limited, a company incorporated in the British Virgin Islands with limited liability and wholly-owned and controlled by Dr. Lui;
“Sutimar”	Sutimar Enterprises Limited a wholly-owned subsidiary of KWIH, incorporated with limited liability in the British Virgin islands and the business of which is investment holding;
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers;
“Transaction Price”	the price of HK\$8.42 per Galaxy Share being the price payable for each of the Sale Shares, the Conversion Shares and the Subscription Shares;
“Transfer”	<p>in relation to any Galaxy Share or any legal or beneficial interest in any Galaxy Share, to:</p> <ul style="list-style-type: none"> <li>(a) sell, assign or otherwise transfer it (including but not limited to by way of stock lending);</li> <li>(b) create any Encumbrance over it;</li> <li>(c) direct (by way of renunciation or otherwise) that another person should, or assign any right to, receive it;</li> <li>(d) enter into any agreement in respect of the votes or any other rights attached to the Galaxy Share;</li> <li>(e) create or permit to subsist any cash-settled option, equity derivative or similar instrument in respect of, or by reference, to it; or</li> <li>(f) agree, whether or not subject to any condition precedent or subsequent, to do any of the foregoing,</li> </ul> <p>except any Encumbrance over new Galaxy Shares that secures indebtedness pursuant to an arm’s length bona fide arrangement with an independent financial institution where such indebtedness is to be injected or invested into Galaxy for Galaxy Shares to be issued pursuant to a top up placing, a rights issue or a private placement of Galaxy Shares;</p>

