
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for shares or other securities.

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 or K. Wah International Holdings Limited (as the case may be), you should at once hand this circular and the relevant accompanying proxy form 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.

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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 BY, CONNECTED TRANSACTION FOR, APPOINTMENT
OF NEW DIRECTORS AND REFRESHMENT OF GENERAL MANDATE TO ISSUE SHARES OF,
GALAXY ENTERTAINMENT GROUP LIMITED**

**POSSIBLE SALE TO PERMIRA INVESTMENT VEHICLES OF 452,500,000 SHARES OF
GALAXY ENTERTAINMENT GROUP LIMITED BY, MAJOR AND CONNECTED TRANSACTIONS FOR,
K. WAH INTERNATIONAL HOLDINGS LIMITED**

Financial adviser to Galaxy Entertainment Group Limited



Independent financial adviser to the
independent board committee and
independent shareholders of
Galaxy Entertainment Group Limited

Independent financial adviser to the
independent board committee and
independent shareholders of
K. Wah International Holdings Limited

COMMERZBANK 

Commerzbank AG Hong Kong Branch



Australia and New Zealand Banking Group Limited

A letter from the Galaxy Independent Board Committee is set out on pages 50 and 51 of this circular and a letter from Commerzbank AG Hong Kong Branch, the independent financial adviser to the Galaxy Independent Board Committee and the Galaxy Independent Shareholders, is set out on pages 52 to 65 of this circular.

A notice convening the Galaxy EGM to be held on Wednesday, 21 November, 2007 at Conrad Hong Kong, Chatham Room, Level 7, Pacific Place, 88 Queensway, Hong Kong at 10:00 a.m. is set out on pages 102 to 106 of this circular. Whether or not Galaxy Shareholders are able to attend the Galaxy EGM, Galaxy Shareholders are requested to complete and return the enclosed **BLUE** form of proxy in accordance with the instructions printed thereon to the registered office of Galaxy at Room 1606, 16th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong (*marked for the attention of the Company Secretary*) as soon as possible but in any event not less than 48 hours before the time appointed for holding the Galaxy EGM. Completion and return of the **BLUE** form of proxy will not preclude Galaxy Shareholders from attending and voting in person at the Galaxy EGM or any adjournment thereof should Galaxy Shareholders so wish.

A letter from the KWIH Independent Board Committee is set out on pages 66 and 67 of this circular and a letter from Australia and New Zealand Banking Group Limited, the independent financial adviser to the KWIH Independent Board Committee and the KWIH Independent Shareholders, is set out on pages 68 to 83 of this circular.

A notice convening the KWIH SGM to be held on Wednesday, 21 November, 2007 at Conrad Hong Kong, Chatham Room, Level 7, Pacific Place, 88 Queensway, Hong Kong at 11:00 a.m. is set out on pages 107 and 108 of this circular. Whether or not KWIH Shareholders are able to attend the KWIH SGM, KWIH Shareholders are requested to complete and return the enclosed **WHITE** form of proxy in accordance with the instructions printed thereon to the principal place of business in Hong Kong of KWIH at 29th Floor, K. Wah Centre, 191 Java Road, North Point, Hong Kong (*marked for the attention of the Company Secretary*) as soon as possible but in any event not less than 48 hours before the time appointed for holding the KWIH SGM. Completion and return of the **WHITE** form of proxy will not preclude KWIH Shareholders from attending and voting in person at the KWIH SGM or any adjournment thereof should KWIH Shareholders so wish.

5 November, 2007

EXPECTED TIMETABLE

2007

Latest time for return of BLUE form of proxy in respect of the Galaxy EGM.	10:00 a.m. on 19 November
Latest time for return of WHITE form of proxy in respect of the KWIH SGM.	11:00 a.m. on 19 November
Galaxy EGM	10:00 a.m. on 21 November
KWIH SGM	11:00 a.m. on 21 November
Completion	30 November

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DEFINITIONS

In this circular unless the context requires otherwise the following terms have the meanings set opposite them:

“Affiliate”	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 of the Letter from the Galaxy Directors headed “The Agreements”;
“ANZ”	Australia and New Zealand Banking Group Limited, acting through its Hong Kong branch, a licensed bank under the Banking Ordinance and an authorized financial institution under the SFO, permitted to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as set out in Schedule 5 to the SFO, the independent financial adviser to the KWIH Independent Board Committee and the KWIH Independent Shareholders in respect of the Share Purchase Agreement;
“Applicable Shares”	the Initial Shares (as adjusted for any sub-division or consolidation of Galaxy Shares), together with any Galaxy Shares or other securities issued or received after the Completion Date and attributable to or derived from such Initial Shares (including Galaxy Shares or other securities received in connection with a rights or bonus issue and any exercise of the Anti-Dilution Rights, but excluding Galaxy 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 a Permira Investment Vehicle other than pursuant to the Subscription Agreement or the Share Purchase Agreement);
“associate”	the meaning ascribed thereto in the Listing Rules;

DEFINITIONS

“business day”	a day other than a Saturday, Sunday or public holiday in England and Wales or Hong Kong;
“City Lion”	City Lion Profits Corp., a company incorporated in the British Virgin Islands and wholly owned by the Principal Trust;
“Commerzbank”	Commerzbank AG, acting through its Hong Kong branch, a licensed bank under the Banking Ordinance and an authorized financial institution under the SFO, permitted to conduct type 1 (deal in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as set out in Schedule 5 to the SFO, and the independent financial adviser to the Galaxy Independent Board Committee and the Galaxy Independent Shareholders in respect of the FRN Agreement and the New Issue Mandate;
“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;

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“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;
“Conditions”	in respect of any given Agreement the conditions to which it is subject as described in this circular;
“connected person”	the meaning ascribed thereto in the Listing Rules;
“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 by Galaxy 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 40,299,000 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 Latest Practicable Date, with exercise prices per Galaxy Share ranging from HK\$0.514 to HK\$4.59;

DEFINITIONS

“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;
“Excluded Transfer”	(1) the Transfer in aggregate of up to sixty-five million Galaxy Shares by the Major Shareholders or any of them; (2) any Transfer in connection with a top-up placing of Galaxy Shares by Galaxy where the Major Shareholders are sellers; and (3) any Transfer of Galaxy Shares between the Major Shareholders;
“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”	the FRN Conversion and Repayment 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 with limited liability, 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;

DEFINITIONS

“Galaxy EGM”	the extraordinary general meeting of Galaxy convened for the purpose of approving, among other matters, the Subscription Agreement and the transactions contemplated thereunder, the FRN Agreement and transactions contemplated thereunder, and the New Issue Mandate, notice of which is set out in this circular;
“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 and the New Issue Mandate;
“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 Shareholder(s)”	holder(s) of Galaxy Shares;
“Galaxy Shares”	shares of HK\$0.10 each in the capital of Galaxy;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Third Party”	— 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

DEFINITIONS

	<p>— 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;</p>
“Initial Shares”	the Sale Shares and the Subscription Shares;
“Investors’ Rights Agreement”	an agreement dated 8 October, 2007 between Galaxy, Permira SPV I, Permira LP and the Major Shareholders concerning the Permira SPV I’s right to appoint directors to the board of Galaxy, amongst other things;
“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 Directors of KWIH;
“KWIH Bonds”	the 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 the KWIH Independent Shareholders on the Share Purchase Agreement;
“KWIH Independent Shareholders”	holders of KWIH Shares other than the Lui Family, Dr. Lui, his spouse, and their respective associates;
“KWIH SGM”	the special general meeting of KWIH convened for the purpose of approving, among other matters, the Share Purchase Agreement and the transactions contemplated thereunder, notice of which is set out in this circular;

DEFINITIONS

“KWIH Shareholders”	holder(s) of KWIH Shares;
“KWIH Shares”	shares of HK\$0.10 each in the capital of KWIH;
“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;
“Latest Practicable Date”	2 November, 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“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, Mr. Lawrence Lui Yiu Nam, 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 (being 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;

DEFINITIONS

“Netfinity”	Netfinity Assets Corporation, a company incorporated in the British Virgin Islands, and wholly-owned by Mr. Lawrence Lui Yiu Nam, a son of Dr. Lui and a member of the Lui Family;
“New Issue Mandate”	the new general mandate proposed to be granted to the Galaxy Directors to allot issue and deal with new Galaxy Shares amounting in aggregate to up to 20% of Galaxy’s issued share capital as at the date of the Galaxy EGM;
“Noteholders”	City Lion and Recurrent Profits;
“On-Market Sale”	any Transfer of Galaxy Shares conducted on-market on the Stock Exchange (including any block trade that is subsequently reported to the Stock Exchange);
“Penta”	Penta Investment Advisers Limited, a company incorporated in the British Virgin Islands and owned by Independent Third Parties, and a substantial shareholder of KWIH holding as at the Latest Practicable Date approximately 15.78% of the KWIH Shares in issue;
“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;

DEFINITIONS

“Permitted On-Market Sale”	an On-Market Sale by either the Major Shareholders or the Permira Investment Vehicles (as the case may be) where the aggregate number of Galaxy Shares which are to be sold by the Major Shareholders (collectively) or the Permira Investment Vehicles (collectively) does not exceed 0.5 per cent. of the issued share capital of Galaxy within any six month period and provided that such Transfer (or Transfers where more than one Transfer is made on a Trading Day) is not in respect of such number of Galaxy Shares that exceeds 5 per cent. of the average daily trading volume of Galaxy Shares on the Stock Exchange over the 10 Trading Day period immediately preceding the relevant Trading Day;
“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 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, and including any Affiliate of any such person;

DEFINITIONS

“Sale Shares”	the 452,500,000 existing Galaxy Shares to be sold by Sutimar under the Share Purchase Agreement;
“SFC”	the Securities and Futures Commission of Hong Kong;
“SFO”	the Securities and Futures Ordinance 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 sale of the Sale Shares;
“Shareholders’ Agreement”	a Shareholders’ Agreement dated 8 October, 2007 between the Permira Investment Vehicles and the Major Shareholders;
“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 LP 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, the sole business of which is investment holding;
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers;
“Trading Day”	any day on which the Stock Exchange is open for the business of dealing in securities;
“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;

DEFINITIONS

- “Transfer”
- in relation to any Galaxy Share or any legal or beneficial interest in any Galaxy Share, to:
- (a) sell, assign or otherwise transfer it (including but not limited to by way of stock lending);
 - (b) create any Encumbrance over it;
 - (c) direct (by way of renunciation or otherwise) that another person should, or assign any right to, receive it;
 - (d) enter into any agreement in respect of the votes or any other rights attached to the Galaxy Share;
 - (e) create or permit to subsist any cash-settled option, equity derivative or similar instrument in respect of, or by reference, to it; or
 - (f) agree, whether or not subject to any condition precedent or subsequent, to do any of the foregoing,
- (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);
- “US\$”
- dollars of the United States of America.

Some numbers in this circular have been rounded. As a result, totals may not add up to exactly 100%.

The English texts of this circular and the accompanying proxy forms shall prevail over the Chinese texts.

LETTER FROM THE GALAXY DIRECTORS



GALAXY ENTERTAINMENT GROUP LIMITED

銀河娛樂集團有限公司

(incorporated in Hong Kong with limited liability)

(Stock Code: 27)

Executive Directors:

Dr. Che-woo Lui, *GBS, MBE, JP, LLD, DSSc, DBA (Chairman)*
Francis Lui Yiu Tung *(Deputy Chairman)*
Chan Kai Nang
Joseph Chee Ying Keung
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**
Anthony Thomas Christopher Carter

* *Independent Non-executive Directors*

5 November, 2007

*To the Galaxy Shareholders and, for information only,
holders of the Galaxy Convertible Bonds*

Dear Sir or Madam,

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 BY, CONNECTED TRANSACTION FOR,
APPOINTMENT OF NEW DIRECTORS AND REFRESHMENT OF
GENERAL MANDATE TO ISSUE SHARES OF,**

GALAXY ENTERTAINMENT GROUP LIMITED

INTRODUCTION

It was announced on 11 October, 2007 that Galaxy proposes to strengthen substantially its capital structure upon Completion with a gross cash injection of approximately HK\$2.7 billion and a net cash injection of approximately HK\$1.4 billion, a

LETTER FROM THE GALAXY DIRECTORS

reduction in debt of approximately HK\$2.6 billion, and a net annual interest reduction of approximately HK\$150 million. It was also announced on 12 October, 2007 that Galaxy had placed an additional 150 million new shares at HK\$8.58 per Galaxy Share resulting in further net cash injection of approximately HK\$1.3 billion (and together with the net cash upon Completion of HK\$1.4 billion, a total net cash injection of HK\$2.7 billion).

This circular contains further particulars of the Subscription Agreement, the Investors' Rights Agreement and the FRN Agreement, the proposal to appoint additional Galaxy Directors and the New Issue Mandate, the advice of the Galaxy Independent Board Committee in respect of FRN Agreement and the New Issue Mandate, and from Commerzbank, the independent financial adviser to the Galaxy Independent Board Committee and the Galaxy Independent Shareholders in respect of the FRN Agreement and the New Issue Mandate, and other information in compliance with the Listing Rules, and notice convening the Galaxy EGM.

In so far as material to Galaxy, 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 in the Letter from the KWIH Directors in this circular.

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

LETTER FROM THE GALAXY DIRECTORS

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 Subscription Agreement, Share Purchase 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 Subscription Agreement, Share Purchase 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 Independent 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 Major Shareholders (including the Noteholders), KWIH, 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;
- 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;
- 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;
- 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;
- a premium of about 4.2% to the closing price per Galaxy Share of HK\$8.08 quoted on the Stock Exchange on the Latest Practicable Date;

LETTER FROM THE GALAXY DIRECTORS

- a premium of about 2.2% to the 5 consecutive trading days' average closing price per Galaxy Share of HK\$8.24 as quoted on the Stock Exchange for the period from 29 October, 2007 up to and including the Latest Practicable Date;
- a premium of about 1.3% to the average closing price per Galaxy Share of HK\$8.31 for the 30 consecutive trading days from 12 September, 2007 up to and including the Latest Practicable Date; and
- a premium of about 7.4% to the average closing price per Galaxy Share of HK\$7.84 for the 90 consecutive trading days from 18 June, 2007 up to and including the Latest Practicable 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\$4.75 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 Subscription Agreement, Share Purchase Agreement and FRN Agreement are not completed. Further details of the Shareholders' Agreement are set out below.

LETTER FROM THE GALAXY DIRECTORS

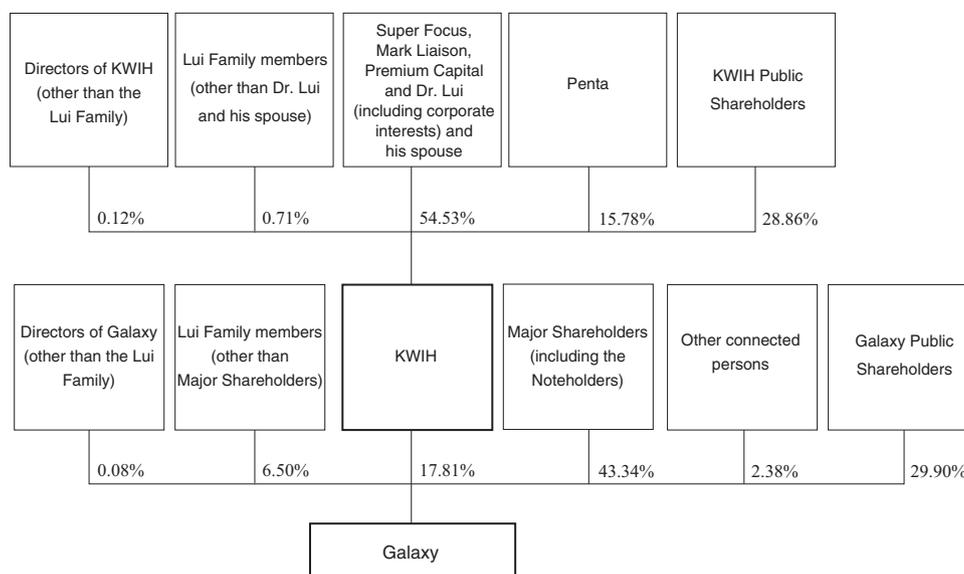
New Issue Mandate

At Galaxy's annual general meeting on 26 June, 2007, the Galaxy Directors were granted a general mandate to issue new Galaxy Shares. 150,000,000 Galaxy Shares have been issued in reliance on that mandate and the 510,358,272 Galaxy Shares that remain to be issued will be reserved for exercise of the Anti-Dilution Rights on approval of the Subscription Agreement. Galaxy has undertaken to the Permira Investment Vehicles not to issue further new Galaxy Shares pursuant to the existing mandate before Completion, and the existing mandate will no longer be available for any purpose other than exercise of Anti-Dilution Rights on approval of the Subscription Agreement. Accordingly the Galaxy Directors will seek the New Issue Mandate at the Galaxy EGM.

SHAREHOLDING STRUCTURE

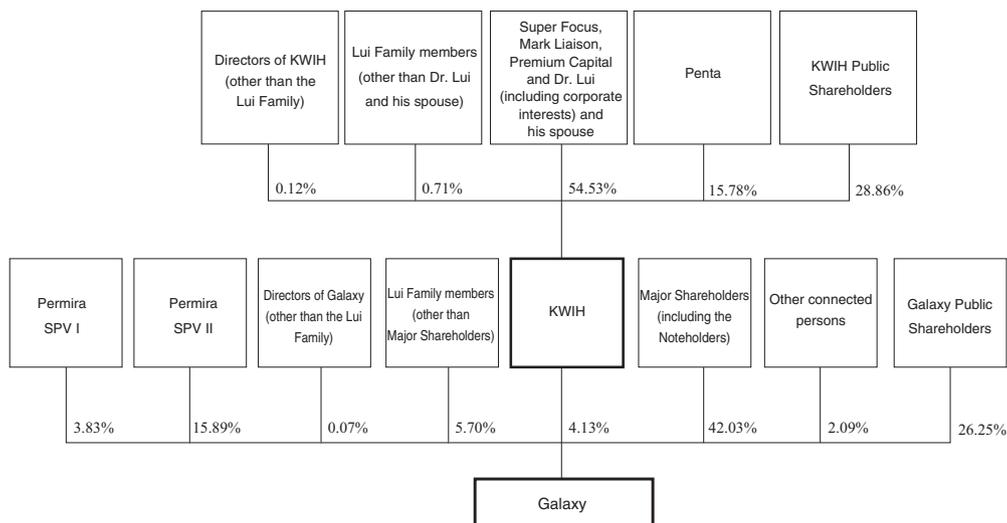
The following diagrams illustrate the corporate and shareholding structure of Galaxy and KWIH before Completion and of Galaxy and KWIH immediately after Completion:

Before Completion



LETTER FROM THE GALAXY DIRECTORS

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).

It is currently expected that more than 25% of the Galaxy Shares will be held by the public immediately after Completion. Steps will be taken before Completion if necessary 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 insufficient Galaxy Shares will be 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.

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

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

The Subscription Shares represent about 9.4% of the existing issued share capital of Galaxy and about 8.2% of the enlarged issued share capital of Galaxy immediately after Completion (assuming that there is no change in its issued share capital from the Latest Practicable Date 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

LETTER FROM THE GALAXY DIRECTORS

- 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 Galaxy 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;

LETTER FROM THE GALAXY DIRECTORS

- 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 Galaxy 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 their grant is subject to the approval of the Galaxy Independent Shareholders.

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

LETTER FROM THE GALAXY DIRECTORS

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 subject as mentioned herein.

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.

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 Investors' 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.

LETTER FROM THE GALAXY DIRECTORS

Nomination: For as long as the Permira Investment Vehicles beneficially hold, in aggregate 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 competent governmental or regulatory 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:

- if after Completion, with respect to a particular party (other than Galaxy or Permira LP), such party ceases to hold any Galaxy 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;

LETTER FROM THE GALAXY DIRECTORS

- 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 within 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
- on 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 Latest Practicable Date, the Major Shareholders held a total of 1,496,551,874 Galaxy Shares, representing about 43.3% 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

LETTER FROM THE GALAXY DIRECTORS

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 Galaxy 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 Galaxy 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

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- it/he/she will not acquire any Galaxy 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 Galaxy 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 Galaxy Shares

Each of the Major Shareholders and the Permira Investment Vehicles agrees not to Transfer any Galaxy Share or any interest in any Galaxy Share for the Lock Up Period, (save for Excluded Transfers). Thereafter, and for 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.

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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 at least fifty per cent. (50%) of the Applicable Shares, each undertakes that it will not own or Control 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 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 by a Major Shareholder (save for Excluded Transfers, Permitted On-Market Sales or Encumbrances expressly permitted in the "Transfer" definition) 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 Shareholder(s).

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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(s) 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).

Right 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 Permitted On-Market Transfers or Encumbrances expressly permitted in the "Transfer" definition) will be subject to a right 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 Galaxy Shares having complied with the terms of the Shareholders' 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;

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- 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 within 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 Permira 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 Galaxy 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 4.5% of the existing issued share capital of Galaxy and about 4.0% of the enlarged issued share capital of Galaxy immediately after Completion (assuming that there is no change in its issued share capital from the Latest Practicable Date to Completion save for the issue of the Subscription Shares and the Conversion Shares at Completion).

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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 Share Purchase Agreement (other than the conditions precedent relating to the satisfaction of the conditions precedent in the FRN Agreement) being satisfied or 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 Share 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.

LETTER FROM THE GALAXY DIRECTORS

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.

Share Purchase Agreement

For a summary of the principal terms of the Share Purchase agreement, you should read the section headed "Share Purchase Agreement" in the Letter from the KWIH Directors in this circular.

Listing

Application has been made to the Stock Exchange for the listing of and permission to deal in the Subscription Shares and the Conversion Shares. It is currently expected that more than 25% of the Galaxy Shares will be held by the public immediately after Completion. If necessary, 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

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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. 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. In anticipation of Completion, Galaxy placed 150,000,000 new Galaxy Shares to independent placees on 12 October, 2007 with the intention that immediately after Completion about 26.25% of its shares will be 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

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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;

- (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 for issue under the general mandate granted to the Galaxy Directors at the annual general meeting of Galaxy held on 26 June 2007. At the Latest Practicable Date 150,000,000 Galaxy Shares had been issued pursuant to that general mandate. Galaxy has undertaken to the Permira Investment Vehicles that no Galaxy Shares will be issued pursuant to that mandate before Completion. As a result the maximum number of Galaxy Shares issuable under the Anti-Dilution Rights will be 510,358,272. 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 Agreement, 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

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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 as non-executive directors 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.

The initial Permira Directors are proposed to be Dr. Martin Clarke and Mr. Guido Paolo Gamucci and resolutions for their appointment will be proposed at the Galaxy EGM. If those resolutions are not passed then both Dr. Clarke and Mr. Gamucci will be appointed to the board of Galaxy by resolution of the Galaxy Directors, with effect from Completion.

The following are brief details of the two proposed new Galaxy directors:

Martin Clarke, aged 51, became a Partner at Permira in 2004 and is Head of the Consumer Sector at Permira. He has worked on a number of transactions including Gala Coral Group, New Look, Principal Hotels and Telepizza.

Martin Clarke has over 20 years of experience of private equity. Prior to joining Permira, he was one of the founder directors of PPMV, the private equity arm of Prudential plc. Martin was involved in developing the business from a small UK-focused operation to a team of over 35 professionals based in London, Europe and the Far East. He was involved in over 20 deals, with a particular interest in the consumer, leisure and retail sectors.

Martin Clarke holds MA and PhD degrees in History from Cambridge University, England.

Save for the proposed appointment to the Relevant Boards pursuant to the terms of the Investors' Rights Agreement, Dr. Clarke will not hold any position with the Galaxy Group. In the last three years preceding the Latest Practicable Date, Dr. Clarke has not been a director of any listed public companies.

LETTER FROM THE GALAXY DIRECTORS

There will be no written director's service contract between Galaxy and Dr. Clarke. He will not be appointed for a specific length of service but his term as a Galaxy Director is subject to the terms of the Investors' Rights Agreement as well as retirement by rotation and re-election at the annual general meetings of Galaxy in accordance with its Articles of Association. His director's emoluments will comprise an annual director's fee (which will be proposed by the Galaxy Board and approved by the Galaxy Shareholders at the subsequent year's annual general meeting of Galaxy). His emoluments will be determined by reference to his duties and responsibilities with Galaxy, Galaxy's performance and profitability, Galaxy's remuneration policy and market benchmarks.

Dr. Clarke does not have any relationship with any directors, senior management or substantial or controlling shareholders of Galaxy save that he is a Permira Director. As at the Latest Practicable Date, he has no interests in Galaxy Shares within the meaning of Part XV of the SFO.

Save as disclosed herein, the Galaxy Board is not aware of any other matters relating to the proposed appointment of Dr. Clarke that need to be brought to the attention of the Galaxy Shareholders nor any information to be disclosed pursuant to any of the requirements of paragraphs (h) to (v) of Rule 13.51(2) of the Listing Rules.

Guido Paolo Gamucci, aged 55, is Chairman of Permira's Asia Pacific operations, having previously managed its Milan office. He is a Partner in Permira. Guido Paolo has worked on numerous transactions including DinoSol Supermercados, EEMS, Ferretti Group and Seat PG.

Prior to joining Permira in 1997, he spent six years with UBS Capital in Italy as Founding Partner and Managing Director. Previously Mr. Gamucci worked at Citicorp in Italy, as Deputy Head of Investment Banking and Country Treasurer for Italy.

Guido Paolo has a degree in Mechanical Engineering from the University of Rome, Italy, and an MBA from INSEAD, France.

Save for the proposed appointment to the Relevant Boards pursuant to the terms of the Investors' Rights Agreement, Mr. Gamucci will not hold any position with the Galaxy Group. In the last three years preceding the Latest Practicable Date, Mr. Gamucci has been a director of Seat Pagine Gialle SpA (a company listed on the Milan Stock Exchange) from 1 August 2003 to 30 September, 2005 and EEMS Italia SpA (a company listed on the Milan Stock Exchange) from 24 May, 1999 to 8 November, 2006.

There will be no written director's service contract between Galaxy and Mr. Gamucci. He will not be appointed for a specific length of service but his term as a Galaxy Director is subject to the terms of the Investors' Rights Agreement as well as retirement by rotation and re-election at the annual general meetings of Galaxy in accordance with its Articles of Association. His director's emoluments will comprise an annual director's fee (which will be proposed by the Galaxy Board and approved by the Galaxy Shareholders at the subsequent year's annual general meeting of

LETTER FROM THE GALAXY DIRECTORS

Galaxy). His emoluments will be determined by reference to his duties and responsibilities with Galaxy, Galaxy's performance and profitability, Galaxy's remuneration policy and market benchmarks.

Mr. Gamucci does not have any relationship with any directors, senior management or substantial or controlling shareholders of Galaxy save that he is a Permira Director. As at the Latest Practicable Date, he has no interests in Galaxy Shares within the meaning of Part XV of the SFO.

Save as disclosed herein, the Galaxy Board is not aware of any other matters relating to the proposed appointment of Mr. Gamucci that need to be brought to the attention of the Galaxy Shareholders nor any information to be disclosed pursuant to any of the requirements of paragraphs (h) to (v) of Rule 13.51(2) of the Listing Rules.

At the Latest Practicable Date, save as disclosed herein, none of the Major Shareholders, 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 similar 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.

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

LETTER FROM THE GALAXY DIRECTORS

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) held 57.8% of the issued share capital of Galaxy at the Latest Practicable Date.

FUND RAISING BY GALAXY IN THE PAST 12 MONTHS

Galaxy has carried out the following capital fund raising exercises in the 12 months last preceding the Latest Practicable Date:

Date of announcement	Event	Net proceeds	Intended use of proceeds as stated in the announcement	Actual use of proceeds
6 December, 2006	Galaxy Convertible Bonds issue	approx. US\$235,150,000 (approx. HK\$1,834,170,000)	Funding expansion of Galaxy's GalaxyWorld Mega Resort and working capital	Same as intended use
12 October, 2007	Placing of 150,000,000 Galaxy Shares	approx. HK\$1,252,818,000	Funding (i) gaming related business, (ii) facility development, (iii) acquisition opportunities, and (iv) general working capital	Same as intended use

Save as disclosed above, Galaxy has not carried out any capital fund raising activities in the 12 months last preceding the Latest Practicable Date.

GALAXY CONVERTIBLE BONDS

No element of the proposals under the Agreements or the Shareholders' Agreement 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.

The adjustment is required to take into account the number of Galaxy Shares in issue immediately before and immediately after the issue of the Subscription Shares and the Conversion Shares, amongst other things, and cannot be determined at the date of this circular or before the Galaxy EGM. Galaxy will inform the holders of the Galaxy Convertible Bonds of the adjustment to the conversion price in accordance with the terms of the Galaxy Convertible Bonds.

LETTER FROM THE GALAXY DIRECTORS

CHANGES TO THE SHAREHOLDING IN GALAXY AS A RESULT OF THE PROPOSALS

The beneficial interests in Galaxy of Major Shareholders (including the Noteholders), Lui Family members (other than the Major Shareholders), KWIH, their respective associates and parties acting in concert with them, the directors of Galaxy 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. These include the effect of dilution assuming the New Issue Mandate is granted and used in full:

	Before Completion		Immediately after Completion but before exercise of any of the Galaxy Convertible Bonds (Note 5) 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)		Immediately after Completion, full exercise of the Galaxy Convertible Bonds (Note 5) and Employee Options (Note 4) and issue of all Galaxy Shares in New Issue Mandate	
	No. of Galaxy Shares	%	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	43.34	1,653,355,874	42.03	1,676,395,874	42.19	1,653,355,874	39.95	1,676,395,874	40.12	1,676,395,874	34.43
Lui Family members (other than Major Shareholders)	224,304,664	6.50	224,304,664	5.70	227,804,664	5.73	224,304,664	5.42	227,804,664	5.45	227,804,664	4.68
KWIH	614,984,047	17.81	162,484,047	4.13	162,484,047	4.09	162,484,047	3.93	162,484,047	3.89	162,484,047	3.34
Directors of Galaxy (other than Lui Family members)	2,752,533	0.08	2,752,533	0.07	7,152,533	0.18	2,752,533	0.07	7,152,533	0.17	7,152,533	0.15
Other connected person of Galaxy (Note 3)	82,250,410	2.38	82,250,410	2.09	82,250,410	2.07	82,250,410	1.99	82,250,410	1.97	82,250,410	1.69
Permira Fund	0	0	775,884,000	19.72	775,884,000	19.52	775,884,000	18.75	775,884,000	18.57	775,884,000	15.93
Public shareholders	1,032,526,833	29.90	1,032,526,833	26.25	1,041,885,833	26.22	1,237,340,837	29.90	1,246,699,837	29.83	1,937,373,909	39.79
Total	3,453,370,361	100	3,933,558,361	100	3,973,857,361	100	4,138,372,365	100	4,178,671,365	100	4,869,345,437	100

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 Latest Practicable Date to Completion.
- As stated in the section headed “General” below, it is the intention to maintain the listing of Galaxy on the Stock Exchange after Completion. If necessary, 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. 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.
- “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.
- At the Latest Practicable Date, 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 are set out in Appendix I.
- The conversion price for the Galaxy Convertible Bonds now in effect is HK\$9.14 per Galaxy Share.

LETTER FROM THE GALAXY DIRECTORS

NO GENERAL OFFER IMPLICATION FOR GALAXY

The Major Shareholders together are the single largest and the controlling shareholder of Galaxy. Through their direct and indirect shareholdings in Galaxy immediately after Completion, the Major Shareholders together will continue to have Control of Galaxy. The sale of the Sale Shares, the issue of the Subscription Shares and the issue of the Conversion Shares will not result in any general offer obligation under the Takeovers Code.

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 to the best knowledge and belief of the Galaxy Directors at the Latest Practicable Date owned approximately 15.78% 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 MANDATE TO ISSUE AND ALLOT SHARES

At the 2007 annual general meeting of Galaxy held on 26 June 2007, ordinary resolutions were passed granting general mandates to the Galaxy Directors to: (i) issue and allot Galaxy Shares not exceeding 20% of the issued share capital of Galaxy as at that date and (ii) repurchase Galaxy Shares not exceeding 10% of the issued share capital of Galaxy as at that date. There were in issue 3,301,791,361 Galaxy Shares at the date of the 2007 annual general meeting of Galaxy. Accordingly, pursuant to the general mandate granted at the 2007 annual general meeting, the Galaxy Board was authorised to issue up to 660,358,272 Galaxy Shares. As at the Latest Practicable Date, Galaxy had issued 150,000,000 Galaxy Shares (but has not repurchased any Galaxy Shares) under such mandate and Galaxy has not refreshed either mandate since the 2007 annual general meeting. However, the existing mandate to issue Galaxy Shares will no longer be available for any purpose other than exercise of Anti-Dilution Rights on approval of the Subscription Agreement.

The Galaxy Directors believe that the New Issue Mandate, if granted, will increase the flexibility of the Galaxy Board in managing Galaxy's capital base and in particular will enable Galaxy to have the financial flexibility for raising additional capital timely for the continued development of its casino business and/or further business opportunities that may arise in the future. Accordingly, it is now proposed that a new general mandate be granted to the Galaxy Directors to issue and allot Galaxy Shares representing up to 20%

LETTER FROM THE GALAXY DIRECTORS

of the issued share capital of Galaxy on the date of passing of the relevant resolution. If granted, the New Issue Mandate will entitle the Galaxy Board to issue and allot up to 690,674,072 new Galaxy Shares (assuming no Galaxy Shares are issued or repurchased between the Latest Practicable Date and the date of the Galaxy EGM).

If granted, the New Issue Mandate will be valid from the time of passing of the relevant resolution at the Galaxy EGM until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of Galaxy;
- (ii) the expiration of the period within which the next annual general meeting of Galaxy is required by the Companies Ordinance to be held; or
- (iii) the revocation or variation of the authority given under the relevant resolution by an ordinary resolution of the shareholders of Galaxy in general meeting.

The Galaxy Directors have no immediate plans for the issue of any Galaxy Shares under the New Issue Mandate.

In compliance with Rule 13.36(4)(a) of the Listing Rules, the controlling shareholders of Galaxy, being City Lion, KWIH, Dr. Lui and his spouse, and their respective associates will abstain from voting in favour of the resolution to approve the New Issue Mandate, and voting on it will be by poll.

The Galaxy Directors will, if necessary, take appropriate steps to ensure that the public float of Galaxy will not be less than 25% upon issuance of any Galaxy Shares under the New Issue Mandate. No Galaxy Shares will be issued under the New Issue Mandate if as a result of which the public float of Galaxy will be less than 25%.

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

At the Latest Practicable Date, the authorised share capital of Galaxy was HK\$688,800,000 divided into 6,888,000,000 Galaxy Shares, 3,453,370,361 of which had been issued and fully paid or credited as fully paid. Upon Completion, an aggregate of 480,188,000 new Galaxy Shares will be issued as the Subscription Shares and the Conversion Shares. In order to accommodate future expansion and growth of the Galaxy Group, the Galaxy Directors propose to increase the authorised share capital of Galaxy from HK\$688,800,000 divided into 6,888,000,000 Galaxy Shares to HK\$900,000,000 divided into 9,000,000,000 Galaxy Shares by the creation of an additional 2,112,000,000 new Galaxy Shares.

Apart from the issue of the Subscription Shares and the Conversion Shares upon Completion and new Galaxy Shares which may fall to be issued under the Anti-Dilution Rights or upon the exercise of the Employee Options or conversion of the Galaxy Convertible Bonds, Galaxy does not have any current plan to issue any part of its unissued share capital.

LETTER FROM THE GALAXY DIRECTORS

GENERAL

Listing status

It is the intention to maintain the listing of Galaxy on the Stock Exchange after Completion and it is currently expected that more than 25% of the Galaxy Shares will be held by the public immediately after Completion. If necessary, 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 Major Shareholders 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 on the Stock Exchange. If the Stock Exchange believes that:

- a false market exists or may exist in the Galaxy 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.

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

Independent board committee

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 as well as the New Issue Mandate.

Independent financial adviser

Galaxy has appointed Commerzbank as the independent financial adviser to advise the Galaxy Independent Board Committee and the Galaxy Independent Shareholders in relation to the FRN Agreement and the New Issue Mandate.

Galaxy EGM

A notice convening the Galaxy EGM to be held on Wednesday, 21 November, 2007 at Conrad Hong Kong, Chatham Room, Level 7, Pacific Place, 88 Queensway, Hong Kong is set out on pages 102 to 106 of this circular. Whether or not holders of Galaxy Shares are able to attend the Galaxy EGM, they are requested to complete and return the BLUE

LETTER FROM THE GALAXY DIRECTORS

form of proxy accompanying this circular in accordance with the instructions printed thereon to the registered office of Galaxy at Room 1606, 16th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong (*marked for the attention of the Company Secretary*) as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the BLUE form of proxy will not preclude holders of Galaxy Shares from attending and voting in person at the meeting or any adjournment thereof should they so wish.

The Major Shareholders (including the Noteholders), KWIH, members of the Lui Family and their respective associates together control or are entitled to exercise control over 67.6% of the voting rights in Galaxy and will abstain from voting on the resolutions numbered 1, 2 and 3 at the Galaxy EGM. City Lion, KWIH, Dr. Lui and his spouse and their respective associates together control or are entitled to exercise control over 57.8% of the voting rights in Galaxy and will abstain from voting in favour of the resolutions numbered 4 and 5 at the Galaxy EGM. Save for the aforesaid, to the best of the Galaxy Directors' knowledge, information and belief having made all reasonable enquiries, no other Galaxy Shareholder or its associate has a material interest in the matters to be considered at the Galaxy EGM and is required under the Listing Rules to abstain from voting at the Galaxy EGM.

Procedure for demanding a poll

The procedure by which Galaxy Shareholders may demand a poll pursuant to the constitutional documents of Galaxy is set out in Article 75 of its Articles of Association which reads as follows:

- “75. At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:
- (i) by the Chairman of the meeting; or
 - (ii) by at least three members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
 - (iii) by any member or members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
 - (iv) by a member or members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

LETTER FROM THE GALAXY DIRECTORS

Unless a poll be so demanded and not withdrawn, a declaration by the Chairman that a resolution has on a show of hands been carried or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against such resolution.”

RECOMMENDATION

The Galaxy Directors consider that each of the Subscription Agreement, the Investors’ Rights Agreement and the FRN Agreement and the New Issue Mandate is in the interests of Galaxy and its shareholders as a whole. Accordingly, the Galaxy Directors recommend the holders of Galaxy Shares to vote in favour of all the resolutions to be proposed at the Galaxy EGM.

Your attention is drawn to the recommendation of the Galaxy Independent Board Committee set out in this circular and advice of Commerzbank set out in this circular.

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

Further information

Your attention is drawn to the information set out elsewhere in this circular and in the appendices to it. In particular your attention is drawn to the Letter from the KWIH Directors which contains more information about the Share Purchase Agreement. If the Share Purchase Agreement does not become unconditional, the Subscription Agreement, Investors’ Rights Agreement and the FRN Agreement will not proceed.

Yours faithfully
Dr. Che-woo Lui
Chairman

LETTER FROM THE KWIH DIRECTORS



K. WAH INTERNATIONAL HOLDINGS LIMITED

嘉華國際集團有限公司

(incorporated in Bermuda with limited liability)

(Stock code: 173)

Executive Directors:

Dr. Che-woo Lui, GBS, MBE, JP, LLD, DSSc, DBA (Chairman)

Francis Lui Yiu Tung

Eddie Hui Ki On, GBS, CBE, QPM, CPM

(Managing Director (Acting))

Lennon Lun Tsan Kau (Deputy Managing Director)

Paddy Tang Lui Wai Yu, JP

Registered office:

Canon's Court

22 Victoria Street

Hamilton HM12

Bermuda

Non-Executive Directors:

Sir David Akers-Jones, KBE, GBM, CMG, Hon. RICS, JP*

Michael Leung Man Kin, CBE, JP

Dr. Philip Wong Kin Hang, GBS, JP, LLD, DH

Dr. The Hon. Leo Lee Tung Hai, GBM, GBS, LLD, JP*

Dr. Robin Chan Yau Hing, GBS, LLD, JP*

Dr. Charles Cheung Wai Bun, JP*

Robert George Nield*

Principal place of

business in Hong Kong:

29th Floor

K. Wah Centre

191 Java Road

North Point

Hong Kong

* Independent Non-executive Directors

5 November, 2007

To the KWIH Shareholders and, for information only, holders of the KWIH Bonds.

Dear Sir or Madam,

POSSIBLE SALE TO PERMIRA INVESTMENT VEHICLES OF 452,500,000 SHARES OF GALAXY ENTERTAINMENT GROUP LIMITED MAJOR AND CONNECTED TRANSACTION

INTRODUCTION — THE DISPOSAL

On 11 October 2007, KWIH (jointly with Galaxy) announced that Sutimar — a wholly-owned subsidiary of KWIH — has agreed to sell the Sale Shares at the Transaction Price to, and has entered into the Share Purchase Agreement with the Permira Investment Vehicles. The aggregate historical cost of the Sale Shares is HK\$2,339,425,000, which represents HK\$5.17 per Sale Share. The Transaction Price for the Sale Shares was determined after commercial negotiations between the parties on an arm's length basis with reference to the strategic value of KWIH's investment in Galaxy, the results and performance of Galaxy, the recent trading performance of Galaxy Shares, and comparable precedent transactions. The aggregate consideration which Sutimar will receive under the Share Purchase Agreement is HK\$3,810,050,000, and it is to be satisfied in cash at Completion.

LETTER FROM THE KWIH DIRECTORS

Completion of the Share Purchase Agreement is conditional on approval by KWIH Independent Shareholders at the KWIH SGM and completion of the Subscription Agreement and the FRN Agreement simultaneous with the Share Purchase Agreement.

Summary of the principal terms of the 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 13.1% of the existing issued share capital of Galaxy and about 11.5% of the enlarged issued share capital of Galaxy immediately after Completion (assuming that there is no change in its issued share capital from the Latest Practicable Date 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

LETTER FROM THE KWIH DIRECTORS

- 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.

Reasons for the Share Purchase Agreement

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. Galaxy has not declared a dividend for the 2 financial years immediately preceding the Disposal.

The Galaxy Shares held by the KWIH Group have an aggregate historical cost in the books of the KWIH Group of HK\$3,179,467,523 of which the 452,500,000 Sale Shares to be sold by Sutimar under the Share Purchase Agreement account for an aggregate historical cost of HK\$2,339,425,000 or 73.6%.

KWIH's principal business is property investment and development in Hong Kong, the PRC and South East Asia. KWIH's interest in Galaxy, which was formerly a subsidiary of KWIH, represents the balance of its former controlling stake. Following the acquisition of Galaxy Casino S.A. by Galaxy in 2005, Galaxy is no longer a subsidiary of KWIH and has since 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 Directors believe that, as a result, the business focus of the KWIH Group has not been 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 business focus of the KWIH Group. Also, by unlocking the value of its

LETTER FROM THE KWIH DIRECTORS

non-core assets, viz. the Sale Shares, KWIH will be able to not only recognise a substantial gain under the Disposal (see the section headed “Gain on disposal by KWIH” below) but also raise significant cash for the expansion of its core property business thereby enhancing the prospect and growth of KWIH.

On Completion of the Share Purchase Agreement, KWIH’s shareholding in Galaxy will be reduced from 17.81% to 4.13% (assuming that there will be no change in Galaxy’s issued share capital from the Latest Practicable Date to Completion save for the issue of the Subscription Shares and Conversion Shares at Completion).

This circular contains further particulars of the Disposal, the recommendations of the KWIH Independent Board Committee and ANZ on the Disposal and the Share Purchase Agreement, and other information in compliance with the Listing Rules together with a notice convening the KWIH SGM for the purpose of considering and, if thought fit, approving the Disposal and the Share Purchase Agreement.

Use of proceeds

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

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 (calculated by reference to the average closing price of the KWIH Shares for the five trading days immediately preceding 8 October, 2007). Consequently, the Disposal under the Share Purchase Agreement constitutes a major transaction for KWIH pursuant to the Listing Rules.

The Share Purchase Agreement involves KWIH disposing of interest in Galaxy a substantial shareholder of which — being Dr. Lui and through the Principal Trust — is a controller and is thus a connected person of KWIH. As such, the Disposal constitutes a connected transaction of KWIH under rule 14A.13(1)(b)(i) of the Listing Rules. The Share Purchase Agreement and the Disposal are conditional upon, amongst other things, the approval of the KWIH Independent Shareholders at the KWIH SGM. Voting will be conducted by way of poll. Dr. Lui and companies controlled by him, his spouse, members of the Lui Family and their respective associates will abstain from voting.

KWIH Bonds

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

LETTER FROM THE KWIH DIRECTORS

Gain on the Disposal

KWIH's gain on the Disposal is estimated to amount to approximately HK\$1,470,625,000. The estimated gain on the Disposal by KWIH is calculated on the basis of the aggregate Transaction Price for the Sale Shares. The Disposal will increase the net asset value per KWIH Share (assuming there is no change in the number of KWIH Shares in issue from the Latest Practicable Date up to and including the KWIH SGM) and the KWIH Group will be in a net positive cash position after Completion.

Independent Board Committee

The letter from the KWIH Independent Board Committee (comprising Sir David Akers-Jones, Dr. The Hon. Leo Lee Tung Hai, Dr. Robin Chan Yau Hing and Mr. Robert George Nield, all independent non-executive directors of KWIH) with recommendations on the Disposal is set out on pages 66 to 67 of this circular.

Independent Financial Adviser

The letter from ANZ (the independent financial adviser appointed to advise the KWIH Independent Board Committee and the KWIH Independent Shareholders regarding the Disposal) is set out on pages 68 to 83 of this circular.

Remaining Interest

Assuming there are no further issues of Galaxy Shares (other than the Conversion Shares and the Subscription Shares) from the Latest Practicable Date to Completion, immediately after Completion, KWIH will hold indirectly 162,484,047 Galaxy Shares (with an aggregate historical cost of HK\$840,042,523) representing approximately 4.13% of the issued shares of Galaxy. KWIH has no present intention of disposing of the Galaxy Shares held by it either now or immediately after Completion but will keep all options under review.

KWIH SGM

A notice convening the KWIH SGM to be held on Wednesday, 21 November, 2007 at Conrad Hong Kong, Chatham Room, Level 7, Pacific Place, 88 Queensway, Hong Kong is set out on pages 107 to 108 of this circular. An ordinary resolution will be proposed at that meeting to approve the Share Purchase Agreement. Voting on that resolution will be by way of poll.

Whether or not holders of KWIH Shares are able to attend the KWIH SGM, they are requested to complete and return the WHITE form of proxy accompanying this circular in accordance with the instructions printed thereon to the principal place of business of KWIH in Hong Kong at 29th Floor, K. Wah Centre, 191 Java Road, North Point, Hong Kong (*marked for the attention of the Company Secretary*) as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the KWIH SGM.

LETTER FROM THE KWIH DIRECTORS

Completion and return of the WHITE form of proxy will not preclude holders of the KWIH Shares from attending and voting in person at the KWIH SGM or any adjournment thereof should they so wish.

As at the Latest Practicable Date, Dr. Lui, his spouse, members of the Lui Family and their respective associates together controlled or were entitled to exercise control over 55.24% of the voting rights in KWIH and will abstain from voting at the KWIH SGM. Save for the aforesaid, to the best of the KWIH Directors' knowledge, information and belief having made all reasonable enquiries, no other KWIH Shareholder or his associate has a material interest in the Share Purchase Agreement and is required under the Listing Rules to abstain from voting at the KWIH SGM.

PROCEDURE FOR DEMANDING A POLL

The procedure by which the KWIH Shareholders may demand a poll pursuant to the constitutional documents of KWIH is set out in Bye-law 78 of its Bye-laws which reads as follows:

“78. At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

- (i) by the Chairman of the meeting; or
- (ii) by at least three members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
- (iii) by any member or members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iv) by a member or members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Unless a poll be so demanded and not withdrawn, a declaration by the Chairman that a resolution has on a show of hands been carried or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against such resolution.”

LETTER FROM THE KWIH DIRECTORS

RECOMMENDATION

The executive directors of KWIH consider that the Share Purchase Agreement is on normal commercial terms and that such terms are fair and reasonable and in the interests of KWIH and the KWIH Shareholders as a whole. The KWIH Independent Board Committee concurs.

Your attention is drawn to the recommendation of the KWIH Independent Board Committee and the recommendations of ANZ (respectively set out on pages 66 to 67 and pages 68 to 83 of this circular).

Accordingly, the KWIH Directors recommend the KWIH Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the KWIH SGM.

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 KWIH Shares.

FURTHER INFORMATION

Your attention is drawn to the information set out elsewhere in this circular and in the appendices to it. In particular your attention is drawn to the Letter from the Galaxy Directors. If the other Agreements referred to in it do not become unconditional the Share Purchase Agreement will not proceed.

Yours faithfully
Dr. Che-woo Lui
Chairman

LETTER FROM THE GALAXY INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Galaxy Independent Board Committee setting out its recommendation to the Galaxy Independent Shareholders in relation to the FRN Agreement and the New Issue Mandate.



GALAXY ENTERTAINMENT GROUP LIMITED

銀河娛樂集團有限公司

(incorporated in Hong Kong with limited liability)

(Stock Code: 27)

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

5 November, 2007

To the Galaxy Independent Shareholders

Dear Sir or Madam,

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 BY,
CONNECTED TRANSACTION FOR, APPOINTMENT OF NEW DIRECTORS AND
REFRESHMENT OF GENERAL MANDATE TO ISSUE SHARES OF,**

GALAXY ENTERTAINMENT GROUP LIMITED

We refer to the circular dated 5 November, 2007 issued jointly by Galaxy and KWIH, of which this letter forms part (the "Circular").

Unless otherwise stated, terms defined in the Circular bear the same meanings when used herein.

LETTER FROM THE GALAXY INDEPENDENT BOARD COMMITTEE

We have been appointed as the members of the Galaxy Independent Board Committee to consider the terms of the FRN Agreement and the New Issue Mandate and to advise the Galaxy Independent Shareholders as to the fairness and reasonableness of the terms of the FRN Agreement and the New Issue Mandate, and to recommend whether or not the Galaxy Independent Shareholders should vote for the ordinary resolutions to be proposed at the Galaxy EGM to consider, and if thought fit, approve the terms of the FRN Agreement and the New Issue Mandate.

Commerzbank has been appointed as the independent financial adviser to advise the Galaxy Independent Board Committee and the Galaxy Independent Shareholders in relation to the terms of the FRN Agreement and the New Issue Mandate.

We wish to draw your attention to the Letter from the Galaxy Directors (which is set out on pages 12 to 42 of the Circular) and the letter of advice from Commerzbank (which is set out on pages 52 to 65 of the Circular).

Having taken into account the advice from Commerzbank, we consider that the terms of the FRN Agreement and the New Issue Mandate are fair and reasonable insofar as the Galaxy Independent Shareholders are concerned and that the FRN Agreement and the New Issue Mandate are in the interests of Galaxy and the Galaxy Shareholders as a whole.

Accordingly, we recommend the Galaxy Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the Galaxy EGM to approve the terms of the FRN Agreement and the New Issue Mandate.

Yours faithfully

The Galaxy Independent Board Committee

Mr. James Ross Ancell

Independent non-executive Director

Dr. William Yip Shue Lam

Independent non-executive Director

LETTER FROM COMMERZBANK

德 國 商 業 銀 行

COMMERZBANK 

(Public Limited Company Incorporated in the Federal Republic of Germany)

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5 November 2007

*To: the Galaxy Independent Board Committee and
the Galaxy Independent Shareholders*

Dear Sirs

**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 AND
REFRESHMENT OF GENERAL MANDATE TO ISSUE AND ALLOT SHARES**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Galaxy Independent Board Committee and the Galaxy Independent Shareholders in connection with the FRN Agreement and the New Issue Mandate. Details of the FRN Agreement and the New Issue Mandate are set out in the section headed “Letter from the Galaxy Directors” as contained in the joint circular to the Galaxy Shareholders and the KWIH Shareholders dated 5 November 2007 (the “Circular”) of which this letter forms a part. Unless otherwise defined herein, terms used in this letter shall have the same meanings as defined in the Circular.

On 8 October 2007, Galaxy entered into, among others, the Subscription Agreement and the FRN Agreement with the Permira Investment Vehicles and the Noteholders, respectively, and KWIH, a substantial shareholder (as defined under the Listing Rules) of Galaxy, through its wholly-owned subsidiary, Sutimar, entered into the Share Purchase Agreement with Permira Investment Vehicles. Pursuant to the Subscription Agreement and the FRN Agreement, Galaxy agreed to (i) issue 323,384,000 Subscription Shares at the Transaction Price to Permira Investment Vehicles and (ii) convert approximately 50% of the principal amount of the FRNs and the relevant accrued interest into the Conversion Shares at the Transaction Price and to redeem the balance of the principal of the FRNs in cash, respectively. In addition, pursuant to the Share Purchase Agreement, KWIH, through Sutimar, agreed to sell the 452,500,000 Sale Shares owned by it to Permira Investment Vehicles at the Transaction Price. Since the FRN Agreement involved the issue of 156,804,000 Conversion Shares to the Noteholders (namely City Lion and Recurrent Profits), which are members of the Major Shareholders who in aggregate hold approximately 43.3% of Galaxy’s issued share capital as at the Latest Practicable Date,

LETTER FROM COMMERZBANK

the transactions contemplated under the FRN Agreement constituted connected transactions under Chapter 14A of the Listing Rules and are therefore subject to approvals of the Galaxy Independent Shareholders at the Galaxy EGM by way of a poll.

In addition, the Galaxy Board also proposed that the Existing General Mandate (as defined below) will be refreshed at the Galaxy EGM to authorise the Galaxy Directors to allot and issue new Galaxy Shares not exceeding 20% of the issue share capital of Galaxy as at the date of the Galaxy EGM passing the relevant resolution(s). Since the New Issue Mandate will be made prior to Galaxy's next annual general meeting, pursuant to Rule 13.36(4) of the Listing Rules, the New Issue Mandate is subject to approval of the Galaxy Independent Shareholders by way of a poll at the Galaxy EGM.

The Galaxy Board currently comprises 10 Directors, with Dr. Che-woo Lui, Mr. Francis Lui Yiu Tung, Mr. Chan Kai Nang, Mr. Joseph Chee Ying Keung, and Ms. Paddy Tang Lui Wai Yu as the executive Directors; Mr. Moses Cheng Mo Chi and Mr. Anthony Thomas Christopher Carter as the non-executive Directors; and Dr. Charles Cheung Wai Bun, Mr. James Ross Ancell and Dr. William Yip Shue Lam as the independent non-executive Directors. Since the transactions contemplated under the FRN Agreement and the New Issue Mandate are subject to the approvals of the Galaxy Independent Shareholders, and Dr. Charles Cheung Wai Bun is also an independent non-executive Director of KWIH, the Galaxy Independent Board Committee comprising only Mr. James Ross Ancell and Dr. William Yip Shue Lam has been formed for the purpose of making recommendation to the Galaxy Independent Shareholders as to how they should vote on the relevant resolutions in respect of the FRN Agreement and the New Issue Mandate at the Galaxy EGM. We, Commerzbank AG Hong Kong Branch, have been appointed as the independent financial adviser to advise the Galaxy Independent Board Committee and the Galaxy Independent Shareholders on the terms of the FRN Agreement and the New Issue Mandate, as to whether they are (i) conducted on normal commercial terms; (ii) fair and reasonable; (iii) the New Issue Mandate and the entering into of the FRN Agreement are in the interest of Galaxy and the Galaxy Shareholders as a whole and (iv) how the Galaxy Independent Shareholders should vote in respect of the relevant resolutions to approve the FRN Agreement and the New Issue Mandate.

In formulating our recommendation, we have relied on the information and facts supplied to us by Galaxy. We have assumed that all information and facts supplied to us by Galaxy are true, complete and accurate in all material respects and we have relied on the same. Also, we have relied on the representations made by the Galaxy Directors that having made all due enquiries and careful decisions, and to the best of their information, knowledge and belief, there is no other fact or representation or the omission of which would make any statement contained in the Circular misleading. In addition, we have reviewed, inter alia, the FRN Agreement, the financial information of Galaxy, including the published annual report for the year ended 31 December 2006 and the unaudited financial statements for the six months ended 30 June 2007. We have also assumed that all information, statements and representations made or referred to in the Circular, which have been provided to us by Galaxy, and for which Galaxy is wholly responsible, are true, complete and accurate in all material respects at the time they were made and continue to be so at the date of despatch of the Circular.

LETTER FROM COMMERZBANK

We consider that we have (i) taken reasonable steps as required under Rule 13.80 of the Listing Rules in obtaining all necessary information from Galaxy and (ii) reviewed sufficient information to enable us to reach an informed view regarding the transactions contemplated under the FRN Agreement and the New Issue Mandate and to provide us with a reasonable basis for our recommendation. We have no reason to suspect that any material facts have been omitted or withheld, nor are we aware of any facts or circumstances, which would render the information and the representations made to us untrue, inaccurate or misleading. We have not, however, carried out any independent verification of the information provided by Galaxy; nor have we conducted any independent in-depth investigation into the business and affairs of Galaxy and its respective associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in relation to the transactions contemplated under the FRN Agreement and the New Issue Mandate, and giving our independent financial advice to the Galaxy Independent Board Committee and the Galaxy Independent Shareholders, we have taken into account the following principal factors:

1. Background of the Galaxy Group

Principal business of the Galaxy Group

Galaxy (formerly known as K. Wah Construction Materials Limited) was initially engaged in the manufacture and distribution of construction materials and was one of the major construction materials suppliers in Hong Kong. However, as described in the Company's 2005 annual report, owing to the suspension of regular land auctions and the halt of certain sizeable development and infrastructure projects in Hong Kong, as well as the persistent macroeconomic measures and the intensifying market competition in the PRC, growth in the construction materials business of the Galaxy Group was softened, resulting in a decline in the revenue derived from the Galaxy Group's construction materials business from the financial year ended 2004 to 2005.

With a view to position the Group to capitalise on the opportunities emerging in gaming in Macau, in March 2005, the Galaxy Group entered into an agreement (the "Galaxy Acquisition Agreement") to acquire 88.1% of the voting shares of Galaxy Casino, S.A. for a consideration of HK\$18,405,198,023 (the "Galaxy Acquisition Consideration") which had been satisfied by, among other things, the issue of the unsecured fixed rate notes at a principal amount of HK\$2,544,239,603 (the "Initial FRNs"). After completion of the Galaxy Acquisition Agreement in July 2005, the Galaxy Group has successfully expanded its business from the then existing manufacturing and distribution of construction materials to the development and operations of casino, hotels and the related leisure and entertainment facilities in Macau, which has become the Galaxy Group's principal source of income and accounted for approximately 72.6% of Galaxy's audited consolidated revenue for the year ended 31 December 2006.

LETTER FROM COMMERZBANK

Set out below are the segmental operating results of the Galaxy Group for the two years ended 31 December 2006, and the six-month periods ended 30 June 2006 and 2007, respectively:

	For the year ended 31 December		For the six months ended 30 June	
	2005 <i>HK\$' Million</i> <i>(Audited)</i>	2006 <i>HK\$' Million</i> <i>(Audited)</i>	2006 <i>HK\$' Million</i> <i>(Unaudited)</i>	2007 <i>HK\$' Million</i> <i>(Unaudited)</i>
Turnover				
— Gaming and Entertainment	66	3,389	741	5,604
— Sale of Construction Materials	<u>1,226</u>	<u>1,281</u>	<u>565</u>	<u>728</u>
Total	<u><u>1,292</u></u>	<u><u>4,670</u></u>	<u><u>1,306</u></u>	<u><u>6,332</u></u>
EBITDA*				
— Gaming and Entertainment	19	145	46	571
— Sale of Construction Materials	146	208	86	100
— Others	<u>(18)</u>	<u>84</u>	<u>54</u>	<u>66</u>
	<u><u>147</u></u>	<u><u>437</u></u>	<u><u>186</u></u>	<u><u>737</u></u>
Segment operating profit/ (loss)				
— Gaming and Entertainment	2,625	(1,188)	(543)	(69)
— Sale of Construction Materials	4	53	6	22
— Others	<u>(37)</u>	<u>103</u>	<u>73</u>	<u>104</u>
Total	<u><u>2,592</u></u>	<u><u>(1,032)</u></u>	<u><u>(464)</u></u>	<u><u>57</u></u>
Net profit/(loss) attributable to the Galaxy Shareholders for the year/period	<u><u>2,395</u></u>	<u><u>(1,532)</u></u>	<u><u>(734)</u></u>	<u><u>(268)</u></u>

* *Earning before interest, tax, depreciation and amortisation (excluding non-recurring items)*

Source: annual and interim reports of Galaxy for respective years

2. The FRN Agreement

2.1 Background

As described above, the Galaxy Acquisition Consideration of HK\$18,405,198,023 involved the issue of the Initial FRNs at a principal amount of HK\$2,544,239,603, with an initial maturity date on 21 August 2006 (the maturity date in respect of HK\$2,371,805,067 of the Initial FRNs has been subsequently amended to 30 September 2008). As stated in the Circular and Galaxy's annual report for the financial year ended 2006, an amount of HK\$172,434,536 of the Initial FRNs with accrued interest of HK\$3,401,000 were fully repaid on 22 May 2006, which reduced the principal amount of the Initial

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FRNs to the existing amount of the FRNs of HK\$2,371,805,067, payable on 30 September 2008 with a fixed interest rate of 6% per annum, which is cumulative and compounded annually and will be paid when the FRNs are repaid or at maturity. In addition, the FRNs have certain restrictive terms, including prohibition of any dividend declaration by Galaxy as long as the FRNs are outstanding unless all interest accrued up to the date of declaration of dividends being first repaid.

Under the FRN Agreement, it was agreed that Galaxy could redeem approximately 50% of the principal amount of the FRNs, and the accrued unpaid interest, being in total HK\$1,320,289,680, by the allotment and issue of an aggregate of 156,804,000 Conversion Shares at the Transaction Price of HK\$8.42 per Conversion Share to the Noteholders, and to repay the remaining balance in cash upon Completion. It is expected that approximately HK\$1,320 million obtained from the subscription (the "Subscription") of 323,384,000 Subscription Shares by Permira Investment Vehicles under the Subscription Agreement will be used to repay the remaining balance and the accrued interest of the FRNs.

2.2 Principal terms and conditions

Completion of the FRN Agreement is inter-conditional with the Subscription Agreement and the Share Purchase Agreement and is subject to 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 the 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 Share Purchase Agreement (other than conditions precedent relating to the satisfaction of the conditions precedent in FRN Agreement) being satisfied as waived in accordance with the terms thereof.

Based on the above, we consider that the FRN Agreement is essentially a debt-to-equity arrangement between Galaxy and the Noteholders by the allotment and issue of new Galaxy Shares at the Transaction Price to the Noteholders in lieu of cash for purpose of repaying Galaxy's outstanding debt. Given that the Transaction Price is comparable to the recent share price performance of the Galaxy Shares (as analysed below) and the terms of the

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FRN Agreement are commonly found in other share subscription agreements in the market, we consider that the FRN Agreement are entered into on normal commercial terms.

3. The Transaction Price

As disclosed in the Circular, the Transaction Price was arrived at after arm's length negotiations among the relevant parties, namely the Noteholders, Permira Fund, Galaxy and KWIH, and with reference to (i) share placement transactions by comparable companies; (ii) the strategic value in having an investor of the calibre of the Permira Fund as one of the Galaxy Shareholders and (iii) the possible enhancement to Galaxy's growth prospect of securing a resourceful and well-known substantial shareholder of Galaxy with significant investments in the gaming industry.

The Transaction Price also represents:

- (i) a discount of approximately 6.4% to the closing price per Galaxy Share of HK\$9.00 as quoted on the Stock Exchange on the Last Dealing Date; and
- (ii) a discount of approximately 6.2% to the average closing price of HK\$8.98 per Galaxy Share as quoted on the Stock Exchange for the last 5 trading days up to and including the Last Dealing Date.

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We have also reviewed recent placement transactions of new shares from 4 September 2007 to 5 October 2007, being the Last Dealing Date, (the “Relevant Period”) for companies whose shares are listed on the Main Board with a market capitalisation of not less than HK\$10 billion on the respective trading days immediately prior to the issue of the relevant placing announcements. To the best of our knowledge, there were 8 share placement transactions which meet the above selection criteria (the “Comparable Transactions”) and are summarised as follows:

Company Name	Stock Code	Date of the placing agreement (2007)	Placing Price	Closing price of the shares on the last trading day prior to the relevant placing agreement	Average closing price for the last 5 trading days prior to the relevant placing agreement
Galaxy	27	8 October	HK\$8.42	HK\$9.00 <i>(6.44%)</i>	HK\$8.98 <i>(6.24%)</i>
China Yurun Food Group Limited	1068	4 October	HK\$10.5	HK\$12.00 <i>(12.50%)</i>	HK\$11.40 <i>(7.89%)</i>
China Resources Power Holdings Company Limited	836	4 October	HK\$24.3	HK\$26.40 <i>(7.95%)</i>	HK\$22.40 <i>8.48%</i>
China Properties Group Limited	1838	3 October	HK\$4.93	HK\$5.03 <i>(1.99%)</i>	HK\$5.056 <i>(2.49%)</i>
Xinyi Glass Holdings Limited	868	27 September	HK\$10.32	HK\$11.20 <i>(7.86%)</i>	HK\$10.51 <i>(1.81%)</i>
Shun Tak Holdings Limited	242	27 September	HK\$12.25	HK\$12.78 <i>(4.15%)</i>	HK\$12.38 <i>(1.05%)</i>
Sino Land Company Limited	83	24 September	HK\$19.576	HK\$21.05 <i>(7.00%)</i>	HK\$20.81 <i>(5.93%)</i>
Beijing Enterprises Holdings Limited	392	20 September	HK\$37.10	HK\$39.30 <i>(5.60%)</i>	HK\$34.72 <i>6.85%</i>
Kerry Properties Limited	683	20 September	HK\$59.23	HK\$62.35 <i>(5.00%)</i>	HK\$59.85 <i>(1.04%)</i>
Average premium/ (discount)				(6.51%)	(0.61%)
Range of premium/ (discount)				(1.99%) to (12.50)%	(7.89%) to 8.48%

Source: *website of the Stock Exchange*

Note: *percentages in italics font denote the premium/(discount) to the respective placing prices (or Transaction Price for Galaxy)*

Based on the above analysis, we noted that (i) the discount of the Transaction Price to the closing price of the Galaxy Shares on the Last Dealing Date is comparable to the average discount of the placing prices of the Comparable

Transactions to the then relevant market prices and (ii) the discount of the Transaction Price to the average closing price of the Galaxy Shares for the 5 trading days prior to and including the Last Dealing Date is within the range of discount rates of the respective placing prices to the relevant 5-day average closing price of the Comparable Transactions. Having taken into account (i) the Galaxy Group's future development plans, including the construction and operations of phases 2, 3 and 4 of its 10.4 million sq.ft gross floor area of its Cotai landbank in Macau including its planned hotels, casinos, retail, convention and entertainment facilities, which will require further significant capital investment; (ii) the substantial improvement in Galaxy's debt profile, including the substantial increase to its cash reserves, (as detailed below) and (iii) the above mentioned discounts of the Transaction Price being within the range of the relevant discounts of the Comparable Transactions, we consider that the Transaction Price is fair and reasonable and is in the interest of Galaxy and the Galaxy Shareholders as a whole.

4. Benefits arising from the arrangement under the FRN Agreement

Competition in the gaming industry in Macau

As described in Galaxy's circular dated 30 June 2005, the gaming industry in Macau was solely operated by Sociedade de Turismo e Diversoes de Macao ("STDM") prior to 2001. However, in December 2001, the Macau government decided to bring an end to STDM's monopoly of the gaming industry and to liberalise laws and regulations applicable to gaming activities in Macau. According to the Gaming Inspection and Coordination of the Government of Macau, in 2002, gaming concessions were granted to three concessionaires after the tendering, and the three operators are Galaxy (whose concession is valid until June 2022), Sociedade de Jogos de Macau, S.A. ("SJM") (whose concession is valid until March 2020) and Wynn Resorts (Macau) S.A. ("Wynn Resorts") (whose concession is valid until June 2022). After the granting of three additional sub-concessions, it is understood that the Macau government will not grant any additional gaming concessions until 2009 pursuant to the concession contracts with Galaxy, SJM and Wynn Resorts.

With the liberalisation of Macau's gaming industry and the stated intention of the Macau government to develop Macau into a world-class gaming centre, the number of casinos in Macau has significantly increased by more than 2.5 times from 11 in December 2003 to 26 in June 2007, with the number of gaming tables increased by approximately 7.3 times from 424 in December 2003 to over

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3,000 in June 2007, and the number of slot machines increased by over 10 times from 814 in December 2003 to over 8,200 in June 2007. Details of which are summarized as below:

Name of casino operators	Number of casinos				
	2003	2004	2005	2006	2007 [#]
— SJM	11	13	15	17	18
— Galaxy (Note 1)	—	1	1	5	5
— Wynn Resorts	—	—	—	1	1
— Venetian Macau, S.A. ("Venetian")*	—	1	1	1	1
— Melco PBL Gaming (Macau) Ltd. ("Melco")*	—	—	—	—	1
Total:	11	15	17	24	26

Source: Gaming Inspection and Coordination Bureau of Macau

	2003	2004	2005	2006	2007 [#]
Gaming Tables	424	1,092	1,388	2,762	3,102
Slot Machines	814	2,254	3,421	6,546	8,234

Sources: Gaming Inspection and Coordination Bureau of Macau

Note 1: the five casinos operated by the Galaxy Group are the StarWorld Casino, the Waldo Casino, the Rio Casino, the President Casino, and the Grand Waldo Casino. Set out below are the summary of the key gaming facilities operated by each of the five casinos operated by the Galaxy Group as at 30 June 2007.

	Number of Gaming Tables [#]	Number of Slot Machines [#]
StarWorld Casino	190	316
Rio Casino	69	150
President Casino	46	—
Waldo Casino	44	48
Grand Waldo Casino	105	316
	<u>454</u>	<u>830</u>

Sources: Galaxy

Note 2: Save for the aforesaid operators, MGM Grand Paradise Limited also operates a facility in Macau under a sub-concession granted by SJM.

* being holders of the sub-concession contract for gaming operations in Macau

information as at 30 June 2007

LETTER FROM COMMERZBANK

Galaxy accounted for approximately 20% of the number of casinos in Macau and the gaming tables and the slot machines operated by Galaxy accounted for only approximately 14.6% and 10.1% of the total number of gaming tables and slot machines in Macau, respectively, we consider that it was critical for Galaxy to capture as large a market share as possible in the shortest possible time, particularly given the liberation of the gaming industry in Macau is still at an early stage with significant annual growth. It is crucial for Galaxy to continue to strengthen its position in the expanding gaming market in Macau, so as to strengthen its leading market position and to protect itself from future competition. As such, the significant strengthening of Galaxy's balance sheet and the reduction in annual interest expenses of approximately HK\$150 million as a result of the arrangement under the FRN Agreement will benefit the Galaxy Group in terms of allowing the Galaxy Group to have additional capital and more readily raise additional cost effective debt, for its future development, particularly, the gaming business and facility development (including but not limited to investments in gaming, food and beverage outlets, spas, and development of convention facilities, shopping malls and theatres and similar facilities at Galaxy's Cotai site), which we consider is in the interest of Galaxy and the Galaxy Shareholders as a whole.

Positive impact on the profitability of the Galaxy Group

For the year ended 31 December 2006, the Galaxy Group recorded an audited consolidated loss attributable to the Galaxy Shareholders of approximately HK\$1,532 million, representing a substantial decrease of approximately HK\$3,927 million from a net profit attributable to the Galaxy Shareholders of HK\$2,395 million for the year ended 31 December 2005. According to Galaxy's 2006 annual report, such substantial decline in net profit attributable to the Galaxy Shareholders was mainly attributable to (i) the finance charges of HK\$522 million (which included an amount of approximately HK\$141 million in interest expense relating to the FRNs); (ii) the non-cash amortisation of intangible assets from the acquisition of gaming operation in Macau in July 2005 of approximately HK\$998 million and (iii) the launch and pre-opening expenses of approximately HK\$268 million associated with the opening of the four casinos and hotels during 2006. It is the strategic development plan of the Galaxy Group to continue to expand its gaming and gaming related businesses in Macau to enhance its leading position in the gaming and entertainment business primarily through the continued development of its Cotai Mega Resort. Accordingly, it is expected that there will be substantial capital expenditure incurred by Galaxy. Having considered the unaudited consolidated cash and bank balance of approximately HK\$6,519 million (including restricted bank deposits of approximately HK\$259 million) as at 30 June 2007 based on Galaxy's interim report, and the net cash inflow of approximately HK\$1,700 million from operating activities and the net cash outflow of approximately HK\$2,892 million from investing activities for the year ended 31 December 2006 based on Galaxy's annual report for 2006, we are of the view that if no additional equity financing is obtained by the Galaxy Group, the Galaxy Group

may have to finance its future planned capital expenditure for phases 2, 3 and 4 of its Cotai landbank relating to the future development in casinos and hotels (including staff costs, training, marketing and branding expenses) through debt financing, resulting in additional interest expense, which may have adverse impact on the future profitability of the Galaxy Group. Given that the entering into of the FRN Agreement will result in the full repayment of the FRNs by (i) the issue of Conversion Shares to repay approximately 50% of the principal amount of the FRNs; (ii) the repayment of the remaining balance and the unpaid accrued interest which is expected to be substantially financed by the proceeds from the issue of the Subscription Shares and (iii) a reduction of net annual interest payment of approximately HK\$150 million as a result of (i) and (ii), we are of the view that the FRN Agreement will strengthen Galaxy's capital structure and base, provide additional future financing flexibility and have a positive impact on the future profitability of the Galaxy Group.

Gearing Ratio

According to the Company's 2007 interim report, the Company had a gearing ratio of approximately 12.5% (being the unaudited consolidated total borrowing less cash and bank balances of approximately HK\$2,930 million over the total assets less cash and bank balance of approximately HK\$23,358 million as at 30 June 2007). It is expected that proceeds from the issue of the Subscription Shares of approximately HK\$2.7 billion less the intended repayment of the remaining principal balance of the FRNs and the accrued unpaid interest of approximately HK\$1,320 million, together with the debt-to-equity arrangement under the FRN Agreement will substantially improve Galaxy Group's debt profile to a net cash position (having a cash surplus of approximately HK\$1.4 billion, including restricted bank deposits of approximately HK\$259 million). This excludes the additional HK\$1.3 billion cash injection raised by Placing (as defined below).

6. The New Issue Mandate

6.1 History of fund raising exercises and the Anti-Dilution Rights

At the annual general meeting of Galaxy held on 26 June 2007 (the "AGM Date"), ordinary resolutions were passed to authorise the Galaxy Directors, among other things, to allot and issue Galaxy Shares not exceeding 20% of the issued share capital of Galaxy as at the AGM Date (the "Existing General Mandate"). Since there were a total of 3,301,791,361 Galaxy Shares as at the AGM Date, the Galaxy Board was authorised to allot and issue up to 660,358,272 Galaxy Shares under the Existing General Mandate. However, during the past 12 months preceding the Latest Practicable Date, Galaxy has entered into agreements in relation to the placing of 150,000,000 Galaxy Shares (the "Placing") and the issue of Galaxy Convertible Bonds as detailed in the Company's announcement dated 12 October 2007 and 6 December 2006, respectively. As stated in the Circular, the net proceeds obtained from the

LETTER FROM COMMERZBANK

Placing and Galaxy Convertible Bonds amounted to approximately HK\$1,253 million and HK\$1,834 million, respectively, and primarily to be used for purpose of funding the expansion of the Galaxy's Galaxy World Mega Resort as well as funding the gaming related business, facility development and acquisition opportunities of the Galaxy Group. As at the Latest Practicable Date, Galaxy has utilised 150,000,000 Galaxy Shares under the Existing General Mandate.

As disclosed in the Circular, the Subscription Agreement which Galaxy entered into on 8 October 2007 contained certain terms and conditions, including, among others, the Anti-Dilution Rights granted to Permira Investment Vehicles. Pursuant to the Anti-Dilution Rights, 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 any future equity or equity linked capital issues. In addition, it is also stipulated that the maximum number of new Galaxy Shares that may be issued under the Anti-Dilution Rights is subject to the number of Galaxy Shares available under the Existing General Mandate upon Completion. Any issue of Galaxy Shares to the Permira Investment Vehicles in excess of that number will be subject to the requirement of Chapter 14A of the Listing Rules. Since 150,000,000 Galaxy Shares have been utilised under the Existing General Mandate as at the Latest Practicable Date and Galaxy has undertaken to the Permira Investment Vehicles that no Galaxy Shares will be issued under the Existing General Mandate, being a maximum of 510,358,272 Galaxy Shares are issuable under the Anti-Dilution Rights.

6.2 *Reason for the refreshment*

Pursuant to the Anti-Dilution Rights contained in the Subscription Agreement, the Existing General Mandate to issue new Galaxy Shares will no longer be available for any purpose other than the exercise of Anti-Dilution Rights. As disclosed in the circular to the Galaxy Shareholders dated 30 June 2005, Galaxy aims to be one of the leading providers of integrated leisure entertainment services in Macau, providing both gaming and non-gaming facilities to tourist to Macau. In view of the future development of the Galaxy Group to achieve the aforesaid objective, we consider that it is critical for the Galaxy Group to preserve its working capital, whilst at the same time, providing the additional financial flexibility for raising additional capital on a timely manner such that the continued development of its gaming business and/or further business development opportunities that may arise in the future will not be hindered. As such, we consider that the New Issue Mandate which authorise the Galaxy Board to allot and issue up to 690,674,072 new Galaxy Shares (based on a total of 3,453,370,361 Galaxy Shares in issue as at the Latest Practicable Date and assuming no Galaxy Shares are issued or repurchased between the Latest Practicable Date and the date of the Galaxy EGM) is in the interest of Galaxy and the Galaxy Shareholders as a whole.

CONCLUSION AND ANALYSIS

The limited number of concessions and sub-concessions granted by the Macau government has provided the Galaxy Group with the protection of a high entry barrier for other potential competitors from entering into the gaming and entertainment market in Macau. However, such preferential market position will be challenged if additional concessions are to be granted by the Macau government after 2009, pursuant to current legislation. Having considered that the Galaxy Group has established its strong foothold in Macau since the commencement of its gaming and entertainment business in 2005 but has no international operations, together with the fact that other concession/sub-concession holders are either renowned foreign casino operators (such as Wynn Resorts and Venetian) or casino operators with a long gaming operating history in Macau (such as SJM), we consider that it is most effective for the Galaxy Group to focus its resources on further establishing its position the gaming and entertainment business in Macau.

Furthermore, as disclosed in Galaxy annual report, the Galaxy Group currently has several capital intensive development projects relating to the construction and operations of the various phases of its Cotai Mega Resort incorporating hotels, casinos and entertainment facilities. Upon Completion, the Galaxy Group will receive a gross cash injection of approximately HK\$2.7 billion and a net cash injection of approximately HK\$1.4 billion, (excluding the additional HK\$1.3 billion raised through the Placing), a reduction in debt of approximately HK\$2.6 billion by way of issue of Conversion Shares under the Subscription Agreement and the FRN Agreement, respectively, which will result in a net reduction in annual interest of approximately HK\$150 million and Galaxy will also earn additional interest income on its increased cash reserves. Galaxy's financial position will improve substantially from a net debt of approximately HK\$2.9 billion (being total borrowing less the cash and bank balance) to a cash surplus of approximately HK\$1.4 billion (including restricted bank deposits of approximately HK\$259 million but before the Placing). Accordingly, we consider that the arrangement under the FRN Agreement and the additional financial flexibility provided under the New Issue Mandate will not only strengthen the capital base of the Galaxy Group and provide substantial additional debt raising capacity and flexibility to meet the future capital requirement in the course of the Galaxy Group's expansion in Macau's gaming and entertainment market, but will also allow the Galaxy Group to respond to the market promptly (particularly when Galaxy aims to accelerate its development programs), which are key competitive edges contributing to the future success of the Galaxy Group.

LETTER FROM COMMERZBANK

RECOMMENDATION

Based on the above principal factors and reasons, we consider the New Issue Mandate and the terms of the FRN Agreement are on normal commercial terms and both the New Issue Mandate and the transactions contemplated under the FRN Agreement are fair and reasonable in so far as the Galaxy Independent Shareholders are concerned, and the New Issue Mandate and the entering into of the FRN Agreement is in the interest of Galaxy and the Galaxy Shareholders as a whole. Accordingly, we recommend the Galaxy Independent Board Committee to advise the Galaxy Independent Shareholders to vote in favour of the resolutions with respect to the New Issue Mandate and the FRN Agreement at the Galaxy EGM to be held on 21 November 2007.

Yours faithfully,
for and on behalf of

Commerzbank AG Hong Kong Branch

Kenneth Chan

Gaston Lam

Head of Corporate Finance – Asia Pacific Corporate Finance – Asia Pacific

LETTER FROM THE KWIH INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the KWIH Independent Board Committee setting out its recommendation to the KWIH Independent Shareholders in relation to the Share Purchase Agreement.

 **K. WAH INTERNATIONAL HOLDINGS LIMITED**
嘉華國際集團有限公司

(incorporated in Bermuda with limited liability)

(Stock code: 173)

Executive Directors:

Dr. Che-woo Lui, GBS, MBE, JP, LLD, DSSc, DBA (Chairman)

Francis Lui Yiu Tung

Eddie Hui Ki On, GBS, CBE, QPM, CPM

(Managing Director (Acting))

Lennon Lun Tsan Kau (Deputy Managing Director)

Paddy Tang Lui Wai Yu, JP

Registered office:

Canon's Court

22 Victoria Street

Hamilton HM12

Bermuda

Non-Executive Directors:

Sir David Akers-Jones, KBE, GBM, CMG, Hon. RICS, JP*

Michael Leung Man Kin, CBE, JP

Dr. Philip Wong Kin Hang, GBS, JP, LLD, DH

Dr. The Hon. Leo Lee Tung Hai, GBM, GBS, LLD, JP*

Dr. Robin Chan Yau Hing, GBS, LLD, JP*

Dr. Charles Cheung Wai Bun, JP*

Robert George Nield*

Principal place of

business in Hong Kong:

29th Floor

K. Wah Centre

191 Java Road

North Point

Hong Kong

* Independent Non-executive Directors

To the KWIH Independent Shareholders

5 November, 2007

Dear Sir or Madam

**POSSIBLE SALE TO PERMIRA INVESTMENT VEHICLES OF
452,500,000 SHARES OF GALAXY ENTERTAINMENT GROUP LIMITED,
MAJOR AND CONNECTED TRANSACTION FOR
K. WAH INTERNATIONAL HOLDINGS LIMITED**

We refer to the circular dated 5 November 2007 issued jointly by KWIH and Galaxy ("Circular"), of which this letter forms part. Terms defined in the Circular bear the same meaning herein unless the context otherwise requires.

We have been appointed as the members of the KWIH Independent Board Committee to consider the Disposal and the Share Purchase Agreement and to advise the KWIH Independent Shareholders as to the fairness and reasonableness of the terms and conditions of the Disposal, and to recommend whether or not the KWIH Independent

LETTER FROM THE KWIH INDEPENDENT BOARD COMMITTEE

Shareholders should vote for the ordinary resolution to be proposed at the KWIH SGM to consider, and if thought fit, approve the terms and conditions of the Share Purchase Agreement. Australia and New Zealand Banking Group Limited (“ANZ”) has been appointed as the independent financial adviser to advise the KWIH Independent Board Committee in relation to the Disposal and the terms of the Share Purchase Agreement.

We wish to draw your attention to the Letter from the KWIH Directors (which is set out on pages 43 to 49 of the Circular) and the Letter from ANZ (which is set out on pages 68 to 83 of the Circular).

Having taken into account the advice from ANZ, we consider the terms and conditions of the Share Purchase Agreement to be fair and reasonable so far as the KWIH Independent Shareholders are concerned and the Disposal is in the interests of KWIH and the KWIH Shareholders as a whole. Accordingly, we recommend the KWIH Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the KWIH SGM to approve the terms and condition of the Share Purchase Agreement and the Disposal.

Yours faithfully,

The KWIH Independent Board Committee

Sir David Akers-Jones

Independent non-executive Director

Dr. The Hon. Leo Lee Tung Hai

Independent non-executive Director

Dr. Robin Chan Yau Hing

Independent non-executive Director

Mr. Robert George Nield

Independent non-executive Director

LETTER FROM ANZ

The following is the text of a letter of advice from ANZ to the KWIH Independent Board Committee and the KWIH Independent Shareholders, which has been prepared for the purpose of incorporation into this document setting out its advice to the KWIH Independent Board Committee and KWIH Independent Shareholders in connection with the Disposal.



Australia and New Zealand Banking Group Limited

31/F, One Exchange Square

8 Connaught Place

Central

Hong Kong

5 November 2007

To: The KWIH Independent Board Committee and the KWIH Independent Shareholders

Dear Sirs,

THE POSSIBLE SALE TO PERMIRA INVESTMENT VEHICLES OF 452,500,000 GALAXY ENTERTAINMENT GROUP LIMITED SHARES REPRESENTING A MAJOR AND CONNECTED TRANSACTION FOR K. WAH INTERNATIONAL HOLDINGS LIMITED

For the purpose of this letter, capitalised terms not otherwise defined shall have the meaning given to them in the circular to the KWIH Shareholders and Galaxy Shareholders dated 5 November 2007 (the “Circular”) jointly issued by KWIH and Galaxy.

1. INTRODUCTION

We refer to our appointment to advise the KWIH Independent Board Committee and the KWIH Independent Shareholders as regards the terms of the Share Purchase Agreement relating to the disposal by KWIH (through its wholly owned subsidiary Sutimar) of 452,500,000 Galaxy Shares to Permira Investment Vehicles at a Transaction Price of HK\$8.42 per Galaxy Share. Details of the Disposal are set out in the Letter from the KWIH Directors contained in the Circular, of which this letter forms part.

The Disposal constitutes a major transaction for KWIH under Chapter 14 of the Listing Rules. By virtue of Dr. Lui being a controller (as defined under the Listing Rules) of KWIH and one of the substantial shareholders of Galaxy, the Disposal also constitutes a connected transaction for KWIH under Chapter 14A of the Listing Rules.

The KWIH Independent Board Committee, comprising Sir David Akers-Jones, Dr. The Hon. Leo Lee Tung Hai, Dr. Robin Chan Yau Hing and Mr. Robert George Nield (all independent non-executive KWIH Directors) has been constituted to consider whether the Disposal is on normal commercial terms, in the ordinary and usual course of business and that such terms are fair and reasonable and in the interests of KWIH and KWIH Shareholders as a whole. Our appointment has been approved by the KWIH Independent Board Committee to advise them and the KWIH Independent Shareholders in connection with the Disposal.

LETTER FROM ANZ

We are not connected with KWIH, Galaxy or their respective substantial shareholders or associates and accordingly we are considered suitable to give independent financial advice on the terms of the Disposal stipulated under the Share Purchase Agreement. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from KWIH, Galaxy or their respective substantial shareholders or associates.

In formulating our opinion and advice, we have relied on the information and facts supplied, and the opinions expressed, by the KWIH Directors and the Galaxy Directors which we have assumed to be true, accurate and complete. We have also sought and received confirmation from the KWIH Directors that no material facts have been omitted from the information supplied and that the information which we have received is sufficient to enable us to reach our opinion and give the advice set out in this letter. We have no reason to doubt the truth and accuracy of the information provided to us or to believe that any material facts have been omitted or withheld. We have also assumed that all representations contained or referred to in the Circular were true at the date of the Circular and will continue to be true up to the date of the KWIH SGM. However, we have not conducted any independent investigation into the businesses and affairs of the KWIH Group or the Galaxy Group.

Our opinion, as set out in this letter, is based upon the market, economic, industry, monetary and other applicable conditions subsisting on, and the information made available to us as of, the Latest Practicable Date. We assume no responsibility to update, revise or reaffirm our opinion in the light of any subsequent development after the Latest Practicable Date that may in any way affect our opinion contained herein.

2. PRINCIPAL FACTORS TAKEN INTO ACCOUNT

In arriving at our opinion with regard to the Disposal as stipulated under the Share Purchase Agreement, we have taken into account the following principal factors:

- (i) Background to the Disposal;
- (ii) Reasons for the Disposal;
- (iii) Information on Galaxy including its recent historical net asset position, recent financial performance and Galaxy's statements on its future prospects;
- (iv) Trading multiples of broadly comparable companies for Galaxy;
- (v) Recent market placement precedent analysis;
- (vi) Historical price performance of Galaxy Shares; and
- (vii) Financial effects on the KWIH Group.

(i) Background to the Disposal

Galaxy was formally known as K. Wah Construction Materials Limited (“KWCM”). In 2005, KWCM acquired Galaxy Casino S.A. which had been awarded a gaming concession in Macau. The consideration for the acquisition was largely satisfied by new shares in KWCM. The acquisition was approved by the shareholders of KWCM and the shareholders of KWIH at their respective general meetings held in July 2005. Following the acquisition, KWIH’s shareholding in Galaxy was reduced to approximately 18.7%. After ceasing to be a subsidiary of KWIH, KWCM changed its name to Galaxy Entertainment Group Limited. KWIH’s shareholding in Galaxy was further reduced to 17.81% following the 150 million new shares placement by Galaxy completed on 25 October 2007.

On 8 October 2007, Sutimar, a wholly owned subsidiary of KWIH, entered into the Share Purchase Agreement with Permira in respect of the sale of 452,500,000 Galaxy Shares to Permira Investment Vehicles for a cash consideration of approximately HK\$3.81 billion which is equivalent to HK\$8.42 for each Galaxy Share. Upon Completion, KWIH’s shareholding in Galaxy will be further reduced to 4.13%.

On the same date, Galaxy also entered into, among others, the Subscription Agreement and the FRN Agreement. The Subscription Agreement involves Permira Investment Vehicles subscribing for 323,384,000 new Galaxy Shares at HK\$8.42 for each Galaxy Share. The FRN Agreement was entered into between Galaxy and the Noteholders relating to the conversion and repayment of the FRN’s. The Share Purchase Agreement, the Subscription Agreement and the FRN Agreement are inter-conditional, completion of the Disposal therefore will be subject to, among other things, KWIH Independent Shareholders approving the resolution to be proposed at the KWIH SGM in respect of the Share Purchase Agreement as well as the Galaxy Independent Shareholders approving the resolutions to be proposed at the Galaxy EGM in respect of the Subscription Agreement and the FRN Agreement.

(ii) Reasons for the Disposal

As set out in the Letter from the KWIH Directors, KWIH’s principal business is property investment and development in Hong Kong, the PRC and South East Asia. KWIH’s present holding of 17.81% in Galaxy is the balance of KWIH’s shareholding in Galaxy subsequent to the acquisition of Galaxy Casino S.A. by KWCM in 2005, which has been accounted for as a non-current investment and bears little resemblance to the core business of KWIH Group. The KWIH Directors also consider the Disposal could make clear to the market the business focus of the KWIH Group.

The Disposal provides KWIH an opportunity to realize its substantial investment in Galaxy in a relatively short period of time and avoid any risk of undertaking a placement to the market. We note that on 11 October 2007, being the date the announcement in relation to, among other things, the Disposal was released (“the Announcement Date”), Galaxy had a free float of approximately 29.9% or approximately 986.6 million Galaxy Shares. The average daily turnover of the free float of Galaxy Shares was low at 0.3% in the twelve months preceding the

LETTER FROM ANZ

Announcement Date based on an average daily trading volume on the Stock Exchange of approximately 2.9 million Galaxy Shares per day. Accordingly, we recognise that significant liquidity constraints in the market for Galaxy Shares would make an open market placement of 452,500,000 Galaxy Shares, representing approximately 45.9% of the free float, very challenging.

In addition, as set out in the Letter from the KWIH Directors, the proceeds of approximately HK\$3.8 billion from the Disposal will be used to finance the property development business and other investment opportunities, if any, and general working capital requirements of KWIH Group. In view of the above, we consider the business rationale for the Disposal sound.

(iii) Galaxy Group

Information on the Galaxy Group

Prior to the acquisition of Galaxy Casino S.A., KWCM was principally engaged in the construction material business. After the acquisition of Galaxy Casino S.A., KWCM changed its name to Galaxy Entertainment Group Limited, which reflects the Galaxy Group's business focus on the gaming and entertainment business. For the year ended 31 December 2006, the gaming and entertainment division accounted for over 70% of Galaxy Group's turnover and approximately 70% of the Galaxy Group's total assets.

Net asset position of the Galaxy Group

We set out below a summary of the audited consolidated balance sheet of the Galaxy Group as at 31 December 2006 and its unaudited consolidated balance sheet as at 30 June 2007:

	unaudited as at 30 June 2007 <i>HK\$ million</i>	audited as at 31 December 2006 <i>HK\$ million</i>
Non-current assets	22,227.2	22,426.4
Current assets	7,390.4	6,782.6
Total assets	29,617.6	29,209.0
Non-current liabilities	(10,966.2)	(10,911.8)
Current liabilities	(4,804.9)	(4,173.7)
Total liabilities	(15,771.1)	(15,085.5)
Minority interest	(481.9)	(490.7)
Net assets attributable to the Galaxy Shareholders	13,364.6	13,632.8

LETTER FROM ANZ

As set out above, the non-current and current asset position of the Galaxy Group was largely unchanged as at 30 June 2007 compared to 31 December 2006. The decrease in intangible assets was largely due to the amortization charge of the gaming concession of approximately HK\$495.5 million. As at 30 June 2007, the Galaxy Group had total intangible assets of approximately HK\$15,026 million comprised largely by the gaming concession in Macau.

Non-current liabilities also remained largely unchanged. However, there was an increase in current liabilities reflecting the increase in the working capital requirements arising from expansion of operations of the gaming and entertainment division.

The net asset value per Galaxy Share as at 30 June 2007 was approximately HK\$4.05. After Completion, the net asset value per Galaxy Share will be approximately HK\$4.75.

Liquidity

The Galaxy Group recorded a net cash inflow in 2006 and the first half of 2007. The total cash and bank balance of the Galaxy Group as at 30 June 2007 was HK\$6,259.8 million (excluding the non-current restricted bank deposits of HK\$259.2m recorded under non-current assets), an increase of HK\$476.6 million from HK\$5,783.2 million as at 31 December 2006.

Gearing ratio

Galaxy's gearing ratio has been maintained at a relatively low level. As at 31 December 2006, Galaxy's gearing ratio was 14%, which will be reduced marginally to 13% as at 30 June 2007.

LETTER FROM ANZ

Historical financial performance

Galaxy's principal activities include the gaming and entertainment business and the building materials business.

The information below is extracted from Galaxy's 2006 annual report and its interim report for the six months ended 30 June 2007.

	For six months ended 30 June 2007	For the year ended 31 December 2006
	<i>HK\$ million</i>	<i>HK\$ million</i>
Revenue	<u>6,332.0</u>	<u>4,669.5</u>
Gross profit	793.6	414.3
Other income	185.1	262.3
Administrative expenses	(412.1)	(683.4)
Other operating expenses	<u>(510.1)</u>	<u>(1,025.6)</u>
Operating (loss)/profit	56.6	(1,032.4)
Finance costs	(323.8)	(522.2)
Share of profits less losses of		
— Jointly controlled entities	(0.9)	29.6
— Associated Companies	<u>(—)</u>	<u>(0.6)</u>
Loss before taxation	(268.1)	(1,525.7)
Taxation	<u>(11.7)</u>	<u>(5.8)</u>
Net loss after taxation	<u>(279.8)</u>	<u>(1,531.5)</u>

For the year ended 31 December 2006

The Galaxy Group recorded a turnover of HK\$4,669.5 million in 2006 representing a 261.4% increase compared to 2005. This growth was largely attributable to the revenue generated from its gaming and entertainment division, which increased from HK\$66.2 million in 2005 to HK\$3,388.8 million in 2006. The turnover of the construction materials division increased marginally from HK\$1,225.7 million to HK\$1,280.7 million. EBITDA of the Galaxy Group increased 193.6% from HK\$148.8 million in 2005 to HK\$436.9 million in 2006. Following a net profit of HK\$2,395.3 million in 2005, the Galaxy Group recorded a net loss of HK\$1,531.5 million in 2006. This was largely due to (i) an amortization charge of HK\$998 million in connection with the gaming concession; and (ii) finance charges of HK\$522 million.

LETTER FROM ANZ

For the six months ended 30 June 2007

The Galaxy Group recorded turnover of HK\$6,332.0 million for the six months ended 30 June 2007, representing a substantial increase from HK\$1,306.3 million recorded in the first half of 2006. The growth was mainly attributable to the expansion of its gaming and entertainment division. EBITDA for this period also improved from HK\$186 million in the first half of 2006 to HK\$737 million in the first half of 2007. On a net basis, the Galaxy Group remained loss making for the first half of 2007, however the loss attributable to the Galaxy Shareholders narrowed to HK\$268 million, an improvement of HK\$466 million from the loss attributable to the Galaxy Shareholders of HK\$734 million recorded in the first half of 2006.

Future prospects

As discussed above, the performance of the Galaxy Group has been improving. This was mainly attributable to the Galaxy Group's increased market share in the gaming industry in Macau. According to the Galaxy Group's 2007 interim report, Galaxy has captured over 20% of Macau's gaming market. The growth of Macau's gaming market is the key driver underpinning the improvement of the Galaxy Group's performance. According to statistics released by the Gaming Inspection and Coordination Bureau of Macau, the game of fortune activities (gaming activities other than the greyhound and horse racing and the lottery) for 2006 grew about 23% as compared to 2005. The gross revenue of the game of fortune activities in the first half of 2007 was approximately HK\$36,868 million, representing growth of 47% as compared to the corresponding period in 2006.

As set out in Galaxy's 2006 annual report and 2007 interim report, Galaxy is confident that Macau's leisure, gaming and entertainment industry will continue growing. In addition to the StarWorld Hotel, Galaxy's flagship entertainment complex in Macau, Galaxy is also developing Cotai Mega Resort. The first phase of Cotai Mega Resort is scheduled to be opened in 2008. It is the intention of Galaxy's management to continue investing in Macau to capitalise on the growth in the gaming market.

(iv) Traded multiples of broadly comparable companies of Galaxy

We recognise that there are no listed companies comparable to Galaxy in terms of composition of business activities, scale of operations, geographical spread of activities, track record and future prospects.

However, reference can be made to listed companies that are considered broadly comparable to Galaxy to provide an indication of the current market expectations with regards to the valuation of these businesses.

LETTER FROM ANZ

Given that Galaxy is primarily engaged in the integrated casino hotel sector of the gaming market, we have for the purpose of our analysis, examined companies with a market capitalization in excess of HK\$4 billion and have a product offering that is broadly comparable to the product offering of Galaxy in terms of the operation of casino hotels in Macau or elsewhere in the Asia Pacific.

Based on our research, we are of the view that the listed companies set out in the table below may be considered to be broadly comparable to Galaxy. **Please note that any comparison made with these broadly comparable companies serves as an illustrative guide only.**

For the purposes of our evaluation on an earnings basis, we have focused on the enterprise value (“**EV**”) to normalised earnings before interest, tax, depreciation and amortisation for the last twelve months (“**EBITDA**”) (“**EV/EBITDA**”) multiples of the broadly comparable companies to Galaxy. We note that other earnings multiples of the broadly comparable companies to Galaxy do not take into account the different financing, taxation and asset investment decisions prevailing at each company. Accordingly, to mitigate the effects on earnings arising from these factors, we have restricted our evaluation to the EV/EBITDA trading multiples. We also note that in any event Galaxy is currently loss making so analysis on a price earnings basis would not be meaningful.

In addition, for completeness, we have also considered the Transaction Price on a price to Net Asset Value (“**NAV**”) basis, which we consider is only meaningful in so far as it shows the extent to which the value of each Galaxy Share is backed by assets, and would be relevant in the event that Galaxy decides to change the nature of its business or to release or convert the uses of all its assets. The NAV basis of valuation does not necessarily reflect the value of Galaxy as a going concern.

LETTER FROM ANZ

For illustrative purposes only, the EV/EBITDA and Price to NAV multiples of broadly comparable companies (based on their closing prices as at the Latest Practicable Date) and Galaxy (based on the Transaction Price of HK\$8.42 per Galaxy Share) are set out in table below.

Company name	Country listed	Market capitalisation ⁽¹⁾⁽²⁾ (HK\$b)	Enterprise value ⁽²⁾ (HK\$b)	EV/EBITDA ⁽³⁾	Price/NAV ⁽³⁾	
Casino operators with a presence in Macau						
Las Vegas Sands Corporation ⁽⁴⁾	United States of America	365.8	404.2	78.6 x	21.2 x	
MGM Mirage	United States of America	210.9	315.7	17.2 x	4.6 x	
Wynn Resorts Limited	United States of America	143.8	154.7	38.6 x	3.2 x	
Melco PBL Entertainment	United States of America	44.4	42.3	n.m. ⁽⁵⁾	1.0 x	
Golden Resorts Group Limited	Hong Kong	4.7	4.4	17.8 x	0.8 x	
				High	38.6 x	4.6 x
				Low	17.2 x	0.8 x
				Median	17.8 x	2.1 x
				Mean	24.5 x	2.4 x
Asia-Pacific casino operators						
Resorts World Bhd.	Malaysia	44.3	42.8	13.6 x	3.0 x	
SKYCITY Entertainment Group Limited	New Zealand	14.7	21.6	10.4 x	5.4 x	
				Mean	12.0 x	4.2 x
				Universe Median	17.2 x	3.1 x
				Universe Mean	19.5 x	3.0 x
Galaxy Group	Hong Kong	29.3	32.7	36.8 x	2.1 x	

- Market capitalisation based on the closing prices as at Latest Practicable Date and diluted shares outstanding (treasury method). Galaxy's market capitalisation is calculated based on the Transaction Price and 3,453,370,361 shares outstanding.
- Market capitalisation and enterprise value have been converted to HK\$ on the relevant spot exchange rates as at the Latest Practicable Date.
- Normalised EBITDA and NAV was based on latest 12-month results sourced from the latest available interim and annual reports.
- Las Vegas Sands Corporation has been excluded from the high, low, median and mean analysis as a substantial outlier.
- Melco PBL Entertainment was not fully operational during the last twelve months and its normalized EBITDA is negative therefore it has been excluded from the high, low, median and mean analysis on the EV/EBITDA multiple.
- Star Cruises Limited has not been included as a broadly comparable company. Resorts World Bhd. and its major shareholders are the major shareholders of Star Cruises Limited.
- Galaxy's multiples are calculated with reference to the Transaction Price.

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8. No premium for control has been incorporated into the trading multiples of the selected broadly comparable companies though we note SKYCITY Entertainment Group Limited is in discussions in connection with a possible takeover transaction.

For illustrative purposes only, based on the Transaction Price:

1. the EV/EBITDA of Galaxy of 36.8x is above the mean and median EV/EBITDA multiples of the selected broadly comparable companies; and
2. the Price to NAV of Galaxy of 2.1x is within the range but below the mean and median Price to NAV multiples of the selected broadly comparable companies.

(v) Recent Market Placement Precedent Analysis

As an alternative to the Disposal, KWIH has the option to dispose of the Sales Shares through an open market placement exercise. We therefore consider it appropriate to evaluate the attractiveness of the Transaction Price per Galaxy Share against the potential price that KWIH might have been able to obtain should it choose to dispose of the Sale Shares in the open market. ANZ was not requested or authorised by the KWIH Independent Board Committee to solicit, and we have not solicited, any indications of interest from any third party with respect to the Sale Shares. Our evaluation is solely based on our analysis on the recent discounts/premiums observed from the recent market placement precedents in Hong Kong.

For comparison purposes, we have selected only placement of listed shares that have been greater than HK\$2,000 million in size and which involved the placement of a non-controlling equity interest of the respective companies during the period from 1 January 2007 to the Announcement Date. The recent market placement precedents illustrate the typical discount represented by the placement

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price to the closing price on the trading day immediately preceding the announcement of the share placements. The recent market placement precedents are listed below for illustrative purposes only and are by no means exhaustive.

Date of announcement	Company	Placement size <i>HK\$m</i>	Discount
2007			
12 September	Aluminium Corp of China Ltd.	15,357	14.8%
4 May	Shimao Property Holdings Ltd.	5,453	5.1%
3 October	China Resources Power Holdings Co Ltd.	4,880	8.0%
24 September	Sino Land Co Ltd.	4,316	7.0%
20 September	Kerry Properties Ltd.	4,152	5.0%
8 May	China Resources Land Ltd.	3,934	6.0%
20 September	Beijing Enterprises Holdings Ltd.	3,715	5.6%
13 July	Shanghai Industrial Holdings Ltd.	3,016	4.0%
24 July	C C Land Holdings Ltd.	2,908	6.7%
13 April	China Mengniu Dairy Co Ltd.	2,704	3.4%
11 May	Gome Electrical Appliances Holding Ltd.	2,665	5.7%
9 August	China National Building Material Co Ltd.	2,656	2.0%
10 July	Sinofert Holdings Ltd.	2,355	5.8%
20 September	Gome Electrical Appliances Holding Ltd.	2,339	10.4%
3 May	Greentown China Holdings Ltd.	2,307	3.8%
16 April	Nine Dragons Paper (Holdings) Ltd.	2,031	2.6%
		High	14.8%
		Low	2.0%
		Median	5.7%
		Mean	6.0%

Source: companies' announcement, Bloomberg

We note from the above table that the average discount represented by the placement prices to the closing prices of the respective companies on the trading day immediately before the announcement of the share placements is a discount of approximately 6.0% which is in line with the Transaction Price discount of 6.4% to the closing price per Galaxy Share on the Last Dealing Date. As highlighted in section (ii) above, we note that on the Announcement Date, Galaxy had a free float of approximately 29.9% or approximately 986.6 million Galaxy Shares. The average daily turnover of the free float of Galaxy Shares was low at 0.3% in the twelve months preceding the Announcement Date based on an average daily trading volume on the Stock Exchange of approximately 2.9 million Galaxy Shares per day. Accordingly, we recognise that significant liquidity constraints in the market for Galaxy Shares would make an open market placement of 452,500,000 Galaxy Shares, representing approximately 45.9% of the free float, very challenging.

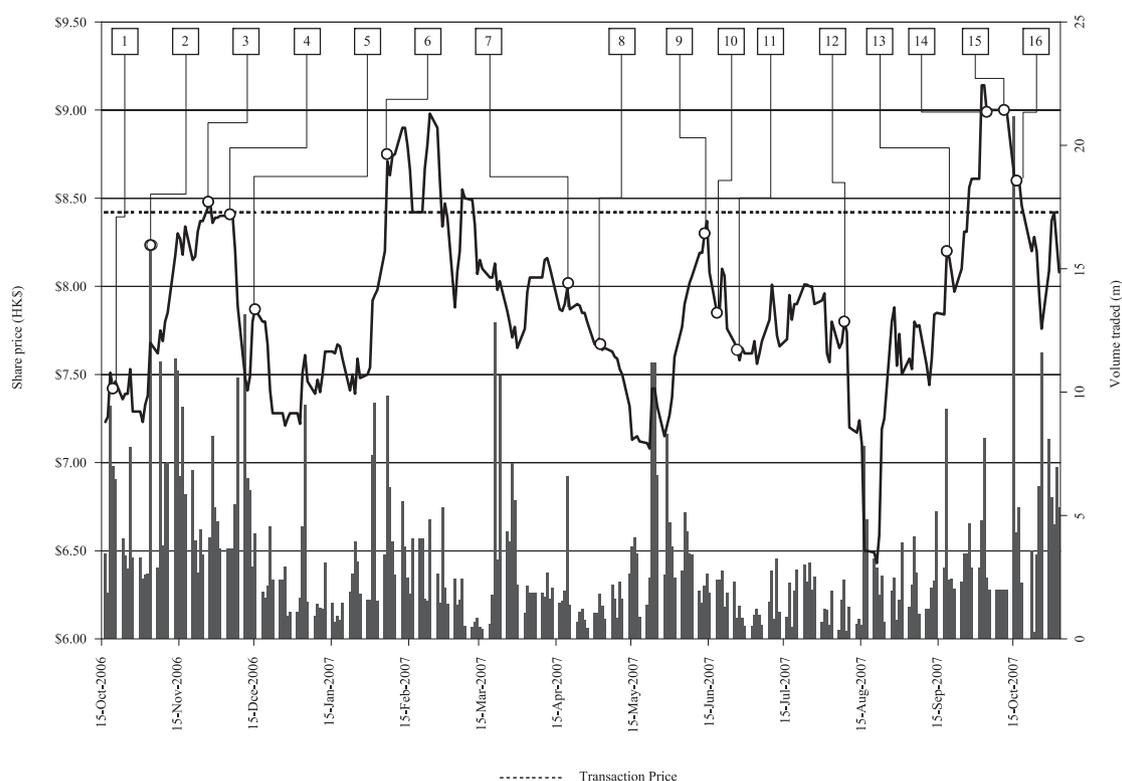
We have also noted a recent private placement by Resorts World Bhd., one of the broadly comparable companies of Galaxy considered in section (iv) above. The private placement involved Resorts World Bhd. placing a 14% interest in Star Cruises Limited to CMY Capital (L) Ltd. undertaken on 13 July 2007. This placement was at a 17.4% discount to the closing price of Star Cruises Limited shares on the last trading day prior to the announcement of the private placement by Resorts World Bhd.

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We wish to highlight that the comparison above is merely for illustrative purposes only as the companies in the list of the recent market placement precedents together with Star Cruises Limited are not comparable to Galaxy in terms of size, market capitalisation, business activities, asset base, geographical spread, track record, future prospects and other relevant criteria and each of the recent market placement precedents and the private placement of Star Cruises Limited Shares has occurred under market conditions which may be different from those prevailing at the time of the Disposal.

(vi) Historical price performance of Galaxy Shares

We set out in the chart below the closing price movements of Galaxy Shares for the twelve months preceding 15 October 2007, being the first trading day after the release of the announcement in relation to, among other things, the Disposal (the "Resumption Date") up to the Latest Practicable Date.



Source: Bloomberg

Notes:

- | | | |
|---|------------------|------------------------------------------------------------------------------------------------------------------------------------|
| 1 | 19 October 2006 | StarWorld Hotel & Casino opened |
| 2 | 03 November 2006 | Macau October gaming revenue increased to US\$687m |
| 3 | 27 November 2006 | StarWorld Casino VIP Clubs opened |
| 4 | 07 December 2006 | Moody's placed Galaxy's rating on review for possible downgrade after Galaxy issued US\$240m in convertible notes on 6 December 06 |
| 5 | 15 December 2006 | Completion of the issue of zero coupon convertible notes |
| 6 | 09 February 2007 | Galaxy announced that it raised its share in Macau gaming market to 22% |
| 7 | 18 April 2007 | Mr. Anthony Thomas Christopher Carter was appointed as a non-executive director of Galaxy |
| 8 | 03 May 2007 | Moody's confirmed Galaxy's B1 rating and stable outlook |
| 9 | 13 June 2007 | Galaxy 5-month profit increased by 25% |

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10	18 June 2007	Hang Seng Index increased by 2.7% to 21,582.89, biggest increase since May 2004
11	26 June 2007	Galaxy was seeking outside operations for Macau hotel-casino project
12	08 August 2007	Hang Seng Index started to fall and dropped to 20,387.134 on 17 Aug (a 9.5% reduction) before making a recovery
13	18 September 2007	Galaxy announced loss narrowed to HK\$267.8m in 1st half 2007
14	04 October 2007	Hang Seng Index posted biggest 2-day fall in 7 weeks to 26,973.98
15	11 October 2007	Galaxy announced, among others, the Subscription Agreement, FRN Agreement and the Share Purchase Agreement
16	16 October 2007	Moody's affirms B1 corporate family rating and senior unsecured rating of Galaxy

In evaluating the reasonableness of the Transaction Price from a market price expectations perspective, on the basis that the stock market may be considered to provide an efficient mechanism by which such price expectations may be expressed, we have considered whether current and historical share prices of Galaxy are reasonable indicators for assessing the financial value of the Galaxy Shares at a given point in time. Under ordinary circumstances, the market valuation of shares traded on a recognised stock exchange may be affected by, inter alia, its relative liquidity, the size of its free float, the extent of research coverage and investor interest it attracts, and the general market sentiment at a given point in time.

The Transaction Price of HK\$8.42 is at the upper end of the trading range of the closing prices of Galaxy Shares for the twelve months preceding the Resumption Date to the Latest Practicable Date. The Transaction Price represents:

- (a) a discount of 6.4% to the closing price per Galaxy Share of HK\$9.00 on the Last Dealing Date;
- (b) a discount of approximately 6.2% to the average closing price per Galaxy Share of HK\$8.98 for the five consecutive trading days from 28 September 2007 up to and including the Last Dealing Date;
- (c) 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;
- (d) a discount of 7.9% to the highest closing price of Galaxy Shares of HK\$9.14 on 2 October 2007;
- (e) a premium of 4.2% to the closing price of Galaxy Shares of HK\$8.08 on the Latest Practicable Date.

We have also considered the relative performance of the Galaxy Shares as compared to the overall applicable market (as reflected by the Hang Seng Composite Index (“**Hang Seng Index**”) and the Bloomberg/Standard Newspaper Macau Gambling Index (“**MGAMB Index**”), an index of companies listed on the Stock Exchange that are involved or connected with the gaming and entertainment sectors in Macau, during the twelve months preceding the Resumption Date.

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Based on the chart below, the Galaxy Share price has underperformed against the overall market as reflected by the Hang Seng Index but outperformed the specific applicable market as reflected by the MGAMB Index during the twelve months preceding the Resumption Date.



Source: Bloomberg

We note that the past trading performance of the Galaxy Shares should not in any way be relied upon as an indication of the future trading performance of Galaxy.

(vii) Financial Effects on the KWIH Group

Net asset value

Immediately after Completion and assuming no change in the number of KWIH Shares in issue from the Latest Practicable Date up to and including the Completion Date, the net asset value per KWIH Share would be increased from HK\$4.05 as at 30 June 2007 to HK\$4.20.

Earnings

After Completion, KWIH will record a gain of approximately HK\$1.47 billion. On the assumption that there is no change in the issued share capital of KWIH and based on 2,455 million KWIH Shares in issue as at the Latest Practicable Date, KWIH will record an earning per KWIH Share of about HK\$0.6 immediately after Completion.

Liquidity and gearing ratio

The cash reserves of the KWIH Group as at 30 June 2007 were approximately HK\$594 million. The proceeds from the Disposal will substantially improve the cash position of KWIH Group. The gearing ratio of

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KWIH Group (calculated as total loans outstanding less cash balance divided by total assets of the KWIH Group) as at 30 June 2007 was 23%. For illustrative purposes only, assuming the net proceeds from the Disposal is HK\$3.8 billion and that no additional loans have been utilized by KWIH Group since 30 June 2007, the KWIH Group will be in a net cash position upon Completion.

3. OPINION AND RECOMMENDATION

Based upon the information that has been made available to us and the factors set forth in this letter, as at the Latest Practicable Date having taken into consideration, *inter alia*, the following:

- (i) Background to the Disposal;
- (ii) Reasons for the Disposal;
- (iii) Information on Galaxy including its recent historical net asset position, recent financial performance and Galaxy's statements on its future prospects;
- (iv) the EV/EBITDA multiple of Galaxy of 36.8x is above the mean and median EV/EBITDA multiples of the selected broadly comparable companies;
- (v) the Price to NAV multiple of Galaxy of 2.1x is within the range but below the mean and median Price to NAV multiples of the selected broadly comparable companies, noting, however, that this analysis is only relevant in the event that Galaxy decides to change the nature of its business or to release or convert the uses of all its assets and does not necessarily reflect the value of Galaxy as a going concern;
- (vi) the average discount represented by the recent market placement precedents is a discount of approximately 6.0% which is in line with the Transaction Price discount of 6.4% to the closing price per Galaxy Share on the Last Dealing Date. We recognise that significant liquidity constraints in the market for Galaxy Shares would make an open market placement of 452,500,000 Galaxy Shares, representing approximately 45.9% of the free float, very challenging;
- (vii) a relevant recent private placement by Resorts World Bhd. of a 14% interest in Star Cruises Limited undertaken on 13 July 2007 was at a 17.4% discount to the closing price of Star Cruises Limited shares on the last dealing day prior to the announcement of the private placement compared to the Transaction Price discount of 6.4% to the closing price per Galaxy Share on the Last Dealing Date;
- (viii) The Transaction Price of HK\$8.42 is at the upper end of the trading range of the closing prices of Galaxy Shares for the twelve months preceding the Resumption Date up to the Latest Practicable Date;

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- (ix) the Galaxy Share price has underperformed against the overall market as reflected by the Hang Seng Index but outperformed the specific applicable market as reflected by the MGAMB Index during the twelve months preceding the Resumption Date; and
- (x) the favourable financial effects to the KWIH Group on an NAV, earnings, liquidity and gearing ratio basis.

We are of the opinion that the terms of the Disposal stipulated under the Share Purchase Agreement including the Transaction Price are on normal commercial terms, in the ordinary and usual course of business, and are fair and reasonable to the KWIH Independent Shareholders. We are also of the opinion that the Disposal is in the interests of the KWIH Group and the KWIH Shareholders as a whole. Accordingly, we advise the KWIH Independent Board Committee to recommend that KWIH Independent Shareholders should vote in favour of the proposed resolution at the KWIH SGM to approve the Disposal and the Share Purchase Agreement and in this regard ANZ shall make the same recommendation to KWIH Independent Shareholders.

Our opinion and recommendation as disclosed in this letter, is based upon the market, economic, industry, monetary and other applicable conditions subsisting on, and the information made available to us as at, the Latest Practicable Date.

Yours faithfully,
for and on behalf of
Australia and New Zealand Banking Group Limited
Glenn Porritt
Director

APPENDIX I GENERAL INFORMATION ABOUT THE GALAXY GROUP

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to Galaxy. The Galaxy Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular relating to the Galaxy Group 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.

DISCLOSURE OF INTERESTS

Galaxy Directors' Interests

As at the Latest Practicable Date, the interests of each Galaxy Director in the Galaxy Shares, underlying Galaxy Shares and debentures of Galaxy, and the details of any right to subscribe for Galaxy Shares, as required to be notified to Galaxy 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 Galaxy 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) Galaxy Shares (including underlying Galaxy Shares)

Name	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	Percentage of Issued Share Capital
Dr. Lui	17,187,632	2,181,518	372,862,426 ⁽¹⁾	1,313,887,206 ⁽²⁾	1,706,118,782	49.40
Francis Lui	11,498,896	—	440,119,661 ⁽³⁾	1,313,887,206 ⁽²⁾	1,765,505,763	51.12
Chan Kai Nang	380,000	—	—	—	380,000	0.01
Joseph Chee Ying Keung	2,720,000	—	—	—	2,720,000	0.08
Paddy Tang Lui Wai Yu	8,939,722	—	—	1,313,887,206 ⁽²⁾	1,322,826,928	38.31
Charles Cheung Wai Bun	252,533	—	—	—	252,533	0.01
Moses Cheng Mo Chi	500,000	—	—	—	500,000	0.01
James Ross Ancell	250,000	—	—	—	250,000	0.01
William Yip Shue Lam	250,000	—	—	—	250,000	0.01
Anthony Thomas Christopher Carter	2,800,000	—	—	—	2,800,000	0.08

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(b) Employee Options

Name	Date of grant	Number of Employee Options Held	Exercise price (HK\$)	Exercise period
Dr. Lui	20 May 1998	1,500,000	0.5333	20 May 1999 – 19 May 2008
	30 Dec 1999	1,800,000	0.5216	30 Dec 2000 – 29 Dec 2009
	28 Feb 2003	2,000,000	0.5140	1 Mar 2004 – 28 Feb 2013
	21 Oct 2005	2,700,000	4.5900	22 Oct 2005 – 21 Oct 2011
	21 Oct 2005	590,000	4.5900	22 Oct 2006 – 21 Oct 2011
Francis Lui	20 May 1998	1,000,000	0.5333	20 May 1999 – 19 May 2008
	30 Dec 1999	1,600,000	0.5216	30 Dec 2000 – 29 Dec 2009
	28 Feb 2003	1,870,000	0.5140	1 Mar 2004 – 28 Feb 2013
	21 Oct 2005	6,000,000	4.5900	22 Oct 2005 – 21 Oct 2011
	21 Oct 2005	580,000	4.5900	22 Oct 2006 – 21 Oct 2011
Chan Kai Nang	28 Feb 2003	110,000	0.5140	1 Mar 2004 – 28 Feb 2013
	21 Oct 2005	270,000	4.5900	22 Oct 2006 – 21 Oct 2011
Joseph Chee Ying Keung	21 Oct 2005	270,000	4.5900	22 Oct 2006 – 21 Oct 2011
Paddy Tang Lui Wai Yu	21 Oct 2005	3,000,000	4.5900	22 Oct 2005 – 21 Oct 2011
	21 Oct 2005	400,000	4.5900	22 Oct 2006 – 21 Oct 2011
Charles Cheung Wai Bun	21 Oct 2005	250,000	4.5900	22 Oct 2006 – 21 Oct 2011
Moses Cheng Mo Chi	28 Feb 2003	300,000	0.5140	1 Mar 2004 – 28 Feb 2013
	21 Oct 2005	200,000	4.5900	22 Oct 2006 – 21 Oct 2011
James Ross Ancell	21 Oct 2005	250,000	4.5900	22 Oct 2006 – 21 Oct 2011
William Yip Shue Lam	21 Oct 2005	250,000	4.5900	22 Oct 2006 – 21 Oct 2011
Anthony Thomas Christopher Carter	21 Oct 2005	2,500,000	4.5900	22 Oct 2005 – 21 Oct 2011

(c) Debentures⁽⁴⁾

Name	Amount of Debentures		
	Corporate Interests (HK\$)	Other Interests (HK\$)	Total Interests (HK\$)
Dr. Lui	—	—	—
Francis Lui	—	—	—
Paddy Tang Lui Wai Yu	—	—	—

APPENDIX I GENERAL INFORMATION ABOUT THE GALAXY GROUP

Notes:

- (1) 80,387,837 Galaxy Shares, 305,401 Galaxy Shares, 106,716,107 Galaxy Shares, 162,484,047 Galaxy Shares, 13,308,179 Galaxy Shares and 9,660,855 Galaxy Shares were, at the Latest Practicable Date, respectively held by Best Chance Investments Ltd., Po Kay Securities & Shares Company Limited, Super Focus, Sutimar, Premium Capital and Mark Liaison, all controlled by Dr. Lui.
- (2) The Principal Trust established by Dr. Lui as founder was, at the Latest Practicable Date, interested in 1,313,887,206 Galaxy Shares. Dr. Lui, Francis Lui and Paddy Tang Lui Wai Yu, as either direct or indirect discretionary beneficiaries of the Principal Trust, are deemed to have an interest in those shares in which the Principal Trust has an interest.
- (3) As at the Latest Practicable Date, 114,504,039 Galaxy Shares were held by Recurrent Profits which is controlled by Francis Lui. Top Notch Opportunities Limited (“Top Notch”) is interested in 231,615,731 underlying Galaxy Shares. Kentlake International Investments Limited (“Kentlake”) is interested in 60,000,000 Galaxy Shares and 33,999,891 underlying Galaxy Shares. Both Top Notch and Kentlake are controlled by Francis Lui.
- (4) Pursuant to the FRN Agreement, Galaxy agreed to repay in full FRNs in the amount of HK\$2,320,898,413 in which Dr. Lui and Paddy Lui Wai Yu are interested and HK\$2,371,805,067 in which Francis Lui is interested.

Save as disclosed above, as at the Latest Practicable Date, none of the Galaxy Directors and chief executive of Galaxy (if any) had any interests or short positions in the Galaxy Shares, underlying Galaxy Shares and debentures of Galaxy or any of its associated corporations (within the meaning of Part XV of the SFO) required to be notified to Galaxy 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 Galaxy and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

Substantial Shareholders’ Interests

(a) *Interests in Galaxy*

As at the Latest Practicable Date, the interests of every person (not being a Galaxy Director or chief executive of Galaxy) in the Galaxy Shares and underlying Galaxy Shares of Galaxy as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name	Number of Galaxy Shares (Long Position)	Percentage of Issued Share Capital	Number of Galaxy Shares (Short Position)	Percentage of Issued Share Capital
Brightwealth Investments Limited	265,615,622	7.69	265,615,622	7.69
City Lion Profits Corp.	1,313,887,206	38.05	—	—
Davos Investment Holdings Private Limited	265,615,622	7.69	265,615,622	7.69
ENB Topco 2 S.à.r.l	625,072,627	18.10	—	—
Guoco Group Limited	265,615,622	7.69	265,615,622	7.69
Guoline Capital Assets Limited	265,615,622	7.69	265,615,622	7.69
Guoline Overseas Limited	265,615,622	7.69	265,615,622	7.69

APPENDIX I GENERAL INFORMATION ABOUT THE GALAXY GROUP

Name	Number of Galaxy Shares (Long Position)	Percentage of Issued Share Capital	Number of Galaxy Shares (Short Position)	Percentage of Issued Share Capital
HL Holdings Sdn Bhd	265,615,622	7.69	265,615,622	7.69
Hong Leong Company (Malaysia) Berhad	265,615,622	7.69	265,615,622	7.69
Hong Leong Investment Holdings Pte. Ltd.	265,615,622	7.69	265,615,622	7.69
HSBC International Trustee Limited	1,313,887,206 ^(Note)	38.05	—	—
Kwek Holdings Pte Ltd	265,615,622	7.69	265,615,622	7.69
Kwek Leng Kee	265,615,622	7.69	265,615,622	7.69
K. Wah International Holdings Limited	162,484,047	4.71	—	—
Pedro Ho On Chun	176,250,301	5.10	—	—
Permira Holdings Limited	775,884,000	22.47	—	—
Quek Leng Chan	265,615,622	7.69	265,615,622	7.69
Top Notch Opportunities Limited	231,615,731	6.71	—	—

Note: HSBC International Trustee Limited is the trustee of the Principal Trust, established by Dr. Lui as founder, which is interested in 1,313,887,206 Galaxy Shares.

There was duplication of interests of:

- (i) 1,313,887,206 Galaxy Shares between Dr. Lui, Francis Lui, Ms. Paddy Tang Lui Wai Yu, City Lion and HSBC International Trustee Limited;
- (ii) 162,484,047 Galaxy Shares between Dr. Lui and KWIH;
- (iii) 231,615,731 underlying Galaxy Shares between Francis Lui and Top Notch;
- (iv) 60,000,000 Galaxy Shares and 33,999,891 underlying Galaxy Shares between Francis Lui and Mr. Pedro Ho On Chun;
- (v) 265,615,622 Galaxy 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; and
- (vi) 625,072,627 Galaxy Shares between Permira Holdings Limited and ENB Topco 2 S.à.r.l.

APPENDIX I GENERAL INFORMATION ABOUT THE GALAXY GROUP

(b) *Interests in other members of the Galaxy Group*

Save as disclosed below, so far as is known to the Galaxy Directors, there is no person (other than a Galaxy Director) who, as at the Latest Practicable Date, is directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other subsidiary of the Galaxy Group:

Name of subsidiary	Name of direct or indirect owner of shares or equity interest (as the case may be)	Effective % of equity interest held
Archiever Capital Limited	Pedro Ho On Chun	10%
Beijing Shoujia Stones Co., Ltd.	Beijing Shougang Limestone Mine Company 北京首鋼石灰石礦	45%
Charm Rich International Limited	Pedro Ho On Chun	10%
E-cost Enterprises Limited	Ke Guo Bin	22.22%
Fast Concrete Limited	Joint Link Development Limited	25%
Firmever Limited	Joint Link Development Limited	25%
Forcecharm Investments Limited	Sumitomo Osaka Cement Co., Ltd.	20%
Galaxy Casino, S.A.	Pedro Ho On Chun	10%
Galaxy Entertainment Finance Company Limited	Pedro Ho On Chun	10%
Galaxy Hotel Management Company Limited	Pedro Ho On Chun	10%
Galaxy Professional Services Limited	Pedro Ho On Chun	10%
Galaxy Project Management Company Limited	Pedro Ho On Chun	10%
Galaxy Tour & Travel Co. Ltd.	Pedro Ho On Chun	10%
Guangzhou Jiafang Concrete Co., Ltd.	Guangzhou Hongtu Enterprise Company 廣州宏圖實業公司	20%
	Guangzhou Land Development Integrated Services Company 廣州市土地開發綜合服務公司	10%
	Guangzhou Real Estate Enterprise Company 廣州市房地產實業總公司	10%
K. Wah Concrete (Huizhou Daya Bay) Limited	Dayabay Hong Kong Limited	20%
K. Wah Concrete Technology Consultancy Limited	Dayabay Hong Kong Limited	20%
KWP Quarry Co. Limited	Pioneer Quarries (Hong Kong) Limited	36.5%
Majestic Orient Limited	Pedro Ho On Chun	10%

APPENDIX I GENERAL INFORMATION ABOUT THE GALAXY GROUP

Name of subsidiary	Name of direct or indirect owner of shares or equity interest (as the case may be)	Effective % of equity interest held
New Galaxy Entertainment Company Limited	Pedro Ho On Chun	10%
Oi Ling Ding (Zhuhai) Precast Concrete Products Limited	Zhuhai Eastern District Hengsheng Construction Materials Company Limited 珠海市東區恆升建材有限公司	25%
Perfect Smart International Limited	Pedro Ho On Chun	10%
Right Grand Investments Limited	Sumitomo Osaka Cement Co., Ltd.	20%
Shanghai Ganghui Concrete Co., Ltd.	Shanghai Xufang Construction Enterprise Company 上海徐房建築實業公司	40%
Shanghai Jiafu Concrete Co., Ltd.	Shanghai Fusheng Zhejiang Construction Materials Company Limited 上海富盛浙工建材有限公司	45%
Shanghai Jiajian Concrete Co., Ltd.	Shanghai Diyishizheng Construction Materials Company Limited 上海市第一市政工程有限公司	39%
Sky Majestic Enterprises Limited	Pedro Ho On Chun	10%
StarWorld Hotel Company Limited	Pedro Ho On Chun	10%
Success Management Services Company Limited	Pedro Ho On Chun	10%
Success Tower Properties Limited	Pedro Ho On Chun	10%
Top Hit Technology Limited	Hong Kong-Dal Limited Digital Ventures Limited	20% 10%
Top Line Road Safety Engineering Co. Limited	Hui Tak Chin Wan Wing Shun	22% 10%
Wealth Ahead Investments Limited	Pedro Ho On Chun	10%
Wise Concrete Limited (incorporated in the British Virgin Islands)	Joint Link Development Limited	25%
Wise Concrete Limited (incorporated in Macau)	Joint Link Development Limited	25%
Year Forward Limited	Pedro Ho On Chun	10%

APPENDIX I GENERAL INFORMATION ABOUT THE GALAXY GROUP

Save as disclosed above, as at the Latest Practicable Date, Galaxy had not been notified by any persons who had interests or short positions in the Galaxy Shares or underlying Galaxy Shares of Galaxy which would fall to be disclosed to Galaxy under Divisions 2 and 3 of Part XV of the SFO.

COMPETING INTERESTS OF GALAXY DIRECTORS AND ASSOCIATES

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

GALAXY DIRECTORS' SERVICE CONTRACTS

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

LITIGATION

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

MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Galaxy Group in the two years last preceding the Latest Practicable Date and are or may be material:

- (1) an Indenture dated 14 December, 2005 between Galaxy Entertainment Finance Company Limited, Galaxy Casino, S.A. and The Bank of New York in respect of the issue of US\$600,000,000 principal amount notes by Galaxy Entertainment Finance Company Limited;
- (2) an Indenture dated as of 14 December, 2006 between Galaxy as Issuer and The Bank of New York as Trustee in respect of the Galaxy Convertible Bonds;
- (3) the Subscription Agreement;
- (4) the Investors' Rights Agreement;
- (5) the FRN Agreement; and
- (6) a Placing Agreement dated 11 October, 2007 between Galaxy and Merrill Lynch Far East Limited relating to 150,000,000 Galaxy Shares.

APPENDIX I GENERAL INFORMATION ABOUT THE GALAXY GROUP

MATERIAL ADVERSE CHANGE

At the Latest Practicable Date, the Galaxy Directors were not aware of any material adverse change in the financial or trading position of the Galaxy Group since 31 December, 2006, the date to which the latest audited consolidated financial statements of the Galaxy Group were made up.

INTERESTS IN ASSETS OF THE GALAXY GROUP

As at the Latest Practicable Date, none of the Galaxy Directors had any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by or leased to, any member of the Galaxy Group since 31 December 2006 (being the date to which the latest published audited consolidated financial statements of Galaxy were made up).

INTERESTS IN CONTRACTS OF GALAXY

As at the Latest Practicable Date, and save as disclosed herein, none of the Galaxy Directors was materially interested in any contracts or arrangements entered into by any member of the Galaxy Group and subsisting as at the Latest Practicable Date which was significant in relation to the business of the Galaxy Group.

GENERAL

- a. The registered office of Galaxy is at Room 1606, 16th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong.
- b. The Company secretary of Galaxy 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 Galaxy 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 Galaxy is Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

INDEBTEDNESS OF THE KWIH GROUP

As at the close of business on 30 September, 2007, being the latest date for ascertaining certain information relating to this indebtedness statement, the KWIH Group had outstanding borrowings of approximately HK\$4,757 million, comprising bank loans of approximately HK\$4,618 million (with secured bank loans of approximately HK\$2,511 million and unsecured bank loans of approximately HK\$2,107 million), the KWIH Bonds of HK\$34 million due on 23 March, 2009 and loans from minority shareholders of subsidiaries of approximately HK\$105 million.

The following table summarises the KWIH Group's borrowings as 30 September, 2007:

	<i>HK\$'000</i>
Bank loans repayable	
Within one year	1,943,900
Between one and two years	1,870,946
Between two and five years	<u>803,425</u>
	----- 4,618,271
The KWIH Bonds repayable ^{Note}	
Between one and two years	----- 33,961
Loans from minority shareholders of subsidiaries	
Repayable on demand	<u>104,379</u>
	<u>4,756,611</u>

Note: The face value of the KWIH Bonds outstanding as at 30 September, 2007 was HK\$40,000,000.

Certain current banking facilities of the KWIH Group are secured by legal charges on investment properties, leasehold land and buildings, properties under development for sale and completed properties held for sale with an aggregate book value of approximately HK\$8,611 million as at 30 September, 2007.

As at 30 September, 2007, the KWIH Group has contingent liabilities comprising guarantees for banking facilities of joint controlled entities of approximately HK\$1,225 million, of which approximately HK\$738 million have been utilised.

As at 30 September, 2007, KWIH had executed a guarantee in favour of the HKSAR Government in respect of the performance obligation of an investee company under a contract with the HKSAR Government.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of business, as at the close of business on 30 September 2007, the KWIH Group did not have any outstanding debt securities issued and outstanding or authorised or otherwise created but un-issued, term loans, other borrowings or indebtedness in the nature of borrowings including bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchase commitments, mortgages, charges, guarantees or other material contingent liabilities.

For the purposes of the foregoing statement of indebtedness foreign currency amounts have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 30 September, 2007.

WORKING CAPITAL

Taking into account the net proceeds from the Disposal, available financial resources and banking facilities and cashflows from operations, the KWIH Directors are of the opinion that the KWIH Group has sufficient working capital for its present requirements, that is for at least the next twelve months from the date of this circular.

FINANCIAL & TRADING PROSPECTS

For the 6 months ended 30 June, 2007, KWIH recorded a turnover of HK\$1,759 million (HK\$129 million for the corresponding period in 2006), and an increase of profit attributable to shareholders by 306% to HK\$439 million (HK\$108 million for the corresponding period 2006). The increase in turnover was mainly due to the recognition of the sales of the KWIH Group's Shanghai Westwood Phase I during the Period. Earning per KWIH share was 18.06 HK cents, as compared to 4.52 HK cents for the corresponding period in 2006.

The KWIH Group's property development business in the PRC continued to grow, despite various policies and measures by the PRC Central Government to cool down the PRC property market. Property market in core cities of the PRC has remained active. Second-tier cities also attract interest of foreign investors. Most of the residential units of the KWIH Group's Shanghai Westwood Phase I have been sold. Construction of Phase II has commenced. Other existing development projects of the KWIH Group have been progressing well in accordance with schedules.

The KWIH Group has been actively identifying suitable sites and investment opportunities in both the PRC and in Hong Kong. On 8 August, 2007, the KWIH Group, through public land auction in Mainland China, has acquired one piece of land in Guangzhou Huadu for residential development at a consideration of Renminbi(¥) 206 million. The land has a site area of approximately 454,000 square feet. The KWIH Group has been actively participating in land auctions in the PRC in search for suitable sites and investment opportunities not only in metropolitan areas such as Guangzhou and Shanghai but also in second-tier cities such as Qingdao, Kunming and Wuxi. The KWIH Directors believe that the expansion into these second-tier cities will position the KWIH Group for long-term sustainable growth.

APPENDIX II GENERAL INFORMATION ABOUT THE KWIH GROUP

The KWIH Group has entered in joint ventures with other developers to develop land in Hong Kong, namely, (i) Pak Shek Kok Reclamation area, Tai Po (being Taipo Town Lot 188 in which the KWIH Group has a 25% and Taipo Town Lot 186 in which the KWIH Group has a 15% interest), (ii) Hoi Wan Road site in West Kowloon Reclamation area in which the KWIH Group has a 15% interest, and (iii) Aberdeen Inland Lot No. 451 in which the KWIH Group has a 35% and acts as the project manager of this land development. The KWIH Group will complete its development projects at The Great Hill and J Residence in the second half of 2007 when the sale revenue and profits will be recognized accordingly.

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to KWIH. The KWIH Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular relating to the KWIH Group 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.

KWIH DIRECTORS' INTEREST IN SECURITIES

As at the Latest Practicable Date, the interests and short positions of each KWIH Director in KWIH Shares, underlying shares and debentures of KWIH or its associated corporation (within the meaning of Part XV of the SFO), if any, and the details of any right to subscribe for KWIH Shares and of the exercise of such rights, as required to be notified to KWIH and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions, if any, which they are taken or deemed to have under such provisions of the SFO) or are recorded in the register of KWIH required under Section 352 of the SFO, or as otherwise notified to KWIH and the Stock Exchange pursuant to Appendix 10 of the Listing Rules, were as follows:

(a) KWIH Shares

Directors	Number of KWIH Shares			Total	Approximate % of Issued Share Capital
	Personal Interests	Family Interests	Corporate Interests		
Dr. Lui	6,558,534	7,256,345 ⁽¹⁾	1,326,706,115 ⁽²⁾	1,340,520,994	54.58
Francis Lui	5,878,035	—	—	5,878,035	0.24
Eddie Hui Ki On	580,000	—	—	580,000	0.02
Lennon Lun Tsan Kau	2,245,046	—	—	2,245,046	0.09
Paddy Tang Lui Wai Yu	8,340,371	—	—	8,340,371	0.34
Sir David Akers-Jones	150,000	—	—	150,000	0.01
Michael Leung Man Kin	100,000	—	—	100,000	0.00
Philip Wong Kin Hang	601,226	—	—	601,226	0.02
Leo Lee Tung Hai	550,000	—	—	550,000	0.02
Robin Chan Yau Hing	936,563	—	—	936,563	0.04
Charles Cheung Wai Bun	607,239	—	—	607,239	0.02
Robert George Nield	500,000	—	—	500,000	0.02

APPENDIX II GENERAL INFORMATION ABOUT THE KWIH GROUP

Unless otherwise stated, all personal interests stated above were held by the respective KWIH Directors in the capacity of beneficial owners.

(b) Share Options of KWIH

Directors	Options held at the Latest Practicable Date	Exercise Price per Share (HK\$)	Exercise period
Dr. Lui	1,350,000	1.906	22 Oct 2006–21 Oct 2011
Francis Lui	1,340,000	1.906	22 Oct 2006–21 Oct 2011
Eddie Hui Ki On	580,000	1.906	22 Oct 2006–21 Oct 2011
Lennon Lun Tsan Kau	670,000	1.906	22 Oct 2006–21 Oct 2011
Paddy Tang Lui Wai Yu	930,000	1.906	22 Oct 2006–21 Oct 2011
Sir David Akers-Jones	150,000	0.720	1 Mar 2004–28 Feb 2013
Michael Leung Man Kin	—	—	—
Philip Wong Kin Hang	300,000	1.906	22 Oct 2006–21 Oct 2011
Leo Lee Tung Hai	—	—	—
Robin Chan Yau Hing	500,000	1.906	22 Oct 2006–21 Oct 2011
Charles Cheung Wai Bun	600,000	1.906	22 Oct 2006–21 Oct 2011
Robert George Nield	500,000	1.906	22 Oct 2006–21 Oct 2011

Notes:

- (1) Dr. Lui is deemed to be interested in 7,256,345 KWIH Shares through the interests of his spouse.
- (2) These 1,326,706,115 shares represent the aggregate of (i) 35,696,109 KWIH Shares held by Best Chance Investments Ltd., (ii) 3,095,377 KWIH Shares held by Po Kay Securities & Shares Company Limited, (iii) 8,286,000 KWIH Shares held by Favor Right Investments Limited, (iv) 1,086,035,985 KWIH Shares held by Super Focus Company Limited, (v) 135,435,613 KWIH Shares held by Premium Capital Profits Limited, and (vi) 58,157,031 KWIH Shares held by Mark Liaison Limited. All the aforesaid companies are ultimately beneficially owned and controlled by Dr. Lui.

All the interests stated above represent long positions.

Save as disclosed above, as at the Latest Practicable Date, none of the KWIH Directors and chief executive (if any) had any interests or short positions in the KWIH Shares, underlying shares and debentures of KWIH or any of its associated corporations (within the meaning of Part XV of the SFO) required to be notified to KWIH and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions, if any, which they are taken or deemed to have under such provisions of the SFO) or are recorded in the register of KWIH required under Section 352 of the SFO, or as otherwise notified to KWIH and the Stock Exchange pursuant to Appendix 10 of the Listing Rules.

Substantial shareholders' interest in securities

(a) KWIH

As at the Latest Practicable Date, so far as is known to any KWIH Director, the interests of every person (other than KWIH Directors) who had interests or short positions in the KWIH Shares or underlying KWIH Shares of KWIH which would fall to be disclosed to KWIH under the provisions of Divisions 2 and 3 of Part XV of the SFO; or which were recorded in the register required to be kept by KWIH under section 336 of the SFO, or, who is directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the KWIH Group, were as follows:

Name of Shareholder	Number of Ordinary Share (Long Position)	Approximate % of Issued Share Capital
Super Focus Company Limited	1,086,035,985 ⁽¹⁾	44.22
Penta Investment Advisers Limited	387,574,033 ⁽²⁾	15.78
John Zwaanstra	387,574,033 ⁽³⁾	15.78
Star II Limited	193,592,644 ⁽¹⁾	7.88
Penta Asia Fund, Ltd.	163,668,672 ⁽⁴⁾	6.66
Todd Zwaanstra	163,668,672 ⁽⁵⁾	6.66
Mercurius GP LLC	163,668,672 ⁽⁶⁾	6.66

Notes:

- (1) Super Focus Company Limited and Star II Limited are beneficially interested in 1,086,035,985 KWIH Shares and 193,592,644 KWIH Shares respectively and both are solely owned and controlled by Dr. Lui.
- (2) Penta Investment Advisers Limited, a company which is 100% controlled by Mr. John Zwaanstra, was interested in 387,574,033 KWIH Shares in the capacity of investment manager.
- (3) These refer to the same interests in the 387,574,033 KWIH Shares held referred to in note (2). Mr. John Zwaanstra was deemed to have interests in the KWIH Shares through his 100% interest in Penta Investment Advisers Limited. Mr. John Zwaanstra was also deemed to have interests in the KWIH Shares in which Penta Asia Fund, Ltd. and Mercurius GP LLC were interested through his control of more than one-third of the voting power of Penta Asia Fund, Ltd. and Mercurius GP LLC.
- (4) The 163,668,672 KWIH Shares were held by Penta Master Fund, Ltd., a wholly-owned subsidiary of Penta Asia Fund, Ltd., and duplicate parts of the interests of Penta Investment Advisers Limited.
- (5) Mr. Todd Zwaanstra was deemed to have interests in the 163,668,672 KWIH Shares in which Penta Master Fund, Ltd. was interested pursuant to his control of more than one-third of the voting power of Penta Asia Fund, Ltd. as trustee of Mercurius Partners Trust, being a discretionary trust.
- (6) Mercurius GP LLC was the founder of the Mercurius Partners Trust and was therefore deemed to have interests in 163,668,672 KWIH Shares in which Mr. Todd Zwaanstra and Mercurius Partners Trust were interested.

APPENDIX II GENERAL INFORMATION ABOUT THE KWIH GROUP

There was duplication of interest of 387,574,033 Shares held by Penta Investment Advisers Limited, which is also interested by Mr. John Zwaanstra. Of these 387,574,033 Shares, 163,668,672 Shares are also deemed to be interested by: (a) Mr. Todd Zwaanstra through Penta Master Fund, Ltd. (wholly-owned by Penta Asia Fund, Ltd. in which Mr. Todd Zwaanstra controls more than 1/3 of the voting power) as trustee of the Mercurius Partners Trust (a discretionary trust), and (b) Mercurius GP LLC as founder of the Mercurius Partners Trust.

Save as disclosed above, as at the Latest Practicable Date, KWIH had not been notified by any persons who had interests or short positions in the KWIH Shares or underlying shares of KWIH which would fall to be disclosed to KWIH under Divisions 2 and 3 of Part XV of the SFO.

(b) Other members of the KWIH Group

Save as disclosed below, so far as is known to the KWIH Directors, there is no person (other than a KWIH Director) who, as at the Latest Practicable Date, is directly or indirectly interested in 10% or more of the nominal value of any class of shares capital carrying rights to vote in all circumstances at general meetings of any other members of the KWIH Group:

Name of subsidiary	Name of owner of shares or equity interest (as the case may be)	Effective % of equity interest held
Asahi Kohatsu Corporation	Ogawa Yosuhiko	22%
Chely Well Limited	Tidefull Investment Limited	28%
Shanghai Jia Hui Da Real Estate Development Co., Ltd.	Max Orient Holdings Limited	30%
	Shanghai Xu Fang (Group) Co., Ltd.	
	上海徐房（集團）有限公司	15%

COMPETING BUSINESS

As at the Latest Practicable Date, Dr. Lui, Francis Lui and Ms. Paddy Tang Lui Wai Yu (collectively, the “KWIH Relevant Directors”), are interested in several independently managed companies, which are also engaging in property investment, trading, and development. The business of these companies (“Competing Business”) may compete, directly or indirectly, with the KWIH Group. The KWIH Relevant Directors are also the directors of certain holding companies of the Competing Business.

Notwithstanding that the KWIH Relevant Directors are also KWIH Directors, the KWIH Group is able to carry on its business independently of — and at arm’s length from — the Competing Business, given that KWIH has a strong and independent Board with 7

out of 12 KWIH Directors being non-executive/independent non-executive Directors. These non-executive/independent non-executive Directors are professionals (audit/accounting and legal), prominent businessmen, or veteran high-ranking Hong Kong Government officials. KWIH has established corporate governance procedures, which ensure investment opportunities and business performance are independently assessed and reviewed. The KWIH Relevant Directors are fully aware of their fiduciary duty to KWIH, and will abstain from voting on any matter where there is, or there may be, a conflict of interest. The KWIH Directors therefore considered that the Group's interest is adequately safeguarded.

Same as disclosed above, there is no other competing business between the KWIH Directors and his/her respective associates and the KWIH Group.

SERVICE CONTRACTS

At the Latest Practicable Date, none of the KWIH Directors had entered into any service contract with any member of the KWIH Group which will not expire and is not terminable by the relevant member of the KWIH Group within one year without payment of any compensation, other than statutory compensation.

LITIGATION

At the Latest Practicable Date, no member of the KWIH Group was engaged in any litigation or claim of material importance to the KWIH Group and no litigation or claim of material importance to the KWIH Group is known to the KWIH Directors to be pending or threatened against any member of the KWIH Group.

MATERIAL CONTRACTS

The following contract (not being a contract entered into in the ordinary course of business) has been entered into by members of the KWIH Group in the two years last preceding the Latest Practicable Date and is or may be material, namely, the Share Purchase Agreement.

MATERIAL ADVERSE CHANGE

At the Latest Practicable Date, the KWIH Directors were not aware of any material adverse change in the financial or trading position of the KWIH Group since 31 December, 2006, the date to which the latest audited consolidated financial statements of the KWIH Group were made up.

INTERESTS IN ASSETS OF THE KWIH GROUP

As at the Latest Practicable Date, none of the KWIH Directors had any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by or leased to, any member of the KWIH Group since 31 December, 2006 (being the date to which the latest published audited consolidated financial statements of KWIH were made up).

INTERESTS IN CONTRACTS OF KWIH

As at the Latest Practicable Date, and save as disclosed herein none of the KWIH Directors was materially interested in any contracts or arrangements entered into by any member of the KWIH Group and subsisting as at the Latest Practicable Date which was significant in relation to the business of the KWIH Group.

GENERAL

- (a) The registered office of KWIH is at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda.
- (b) The principal place of business of KWIH in Hong Kong is at 29th Floor, K. Wah Centre, 191 Java Road, North Point, Hong Kong.
- (c) The company secretary of KWIH is Mr. Ricky Chan Ming Tak, a solicitor qualified in Hong Kong, an attorney of the New York State Bar and a solicitor/advocate of Singapore. The qualified accountant of the Company is Mr. Ken Wong Chun Keung, a fellow of the Association of Chartered Certified Accountants in the United Kingdom, an associate of the Hong Kong Institute of Certified Public Accountants and a Fellow of the Certified General Accountants Association of Canada.
- (d) The Hong Kong Branch Share Registrars and transfer office of KWIH is Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given opinions in this circular:

Name	Qualification
ANZ	a licensed bank under the Banking Ordinance and an authorized financial institution under the SFO, permitted to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as set out in Schedule 5 to the SFO
Commerzbank	a licensed bank under the Banking Ordinance and an authorized financial institution under the SFO, permitted to conduct type 1 (deal in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as set out in Schedule 5 to the SFO

As at the Latest Practicable Date neither of ANZ and Commerzbank had any beneficial interests in the share capital of any members of the Galaxy Group or of the KWIH Group or had any rights, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any members of the Galaxy Group or of the KWIH Group or had any interests, either directly or indirectly, in any assets which since 31 December, 2006 (being the date to which the latest published audited financial statements of each of Galaxy and KWIH were made up) were acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any members of the Galaxy Group or of the KWIH Group.

Each of ANZ and Commerzbank has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and/or references to its name in the form and context in which it appears.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the office of Richards Butler at 20th Floor, Alexandra House, 16–20 Chater Road, Central, Hong Kong during normal business hours on any weekday (except public holidays) from the date of this circular up to and including the date of the Galaxy EGM and the KWIH SGM, whichever is the later, and at the Galaxy EGM and the KWIH SGM:

1. the memorandum and articles of association of Galaxy;
2. the memorandum of association and bye-laws of KWIH;

3. the annual report including the audited consolidated financial statements of Galaxy for each of the years ended 31 December, 2005 and 2006 and the interim report including certain unaudited consolidated financial statements of Galaxy for the six months ended 30 June, 2007;
4. the annual report including the audited consolidated financial statements of KWIH for each of the years ended 31 December, 2005 and 2006 and the interim report including certain unaudited consolidated financial statements of KWIH for the six months ended 30 June, 2007;
5. the material contracts of the Galaxy Group referred to in Appendix I to this circular;
6. the material contracts of the KWIH Group referred to in Appendix II to this circular;
7. the FRNs;
8. Circulars issued by KWIH under Chapter 14 of the Listing Rules since 31 December 2006 including:
 - a. a circular dated 19 April, 2007 in respect of the Discloseable Transaction and Formation of a Joint Venture for Development of Land in Hong Kong known as Tai Po Town Lot No. 188 at Pak Shek Kok Reclamation Phase 1, Site C, Tai Po, New Territories;
 - b. a circular dated 20 June, 2007 in respect of the Discloseable Transaction and Formation of a Joint Venture for Development of Land in Hong Kong known as Kowloon Inland Lot No. 11073 at the junction of Hoi Wang Road, Yan Cheung Road and Yau Cheung Road, West Kowloon Reclamation Area, Kowloon, Hong Kong; and
 - c. a circular dated 25 October, 2007 in respect of the Discloseable Transaction and Formation of a Joint Venture for Development of Land in Hong Kong known as Tai Po Town Lot No. 186 at Pak Shek Kok Development Area, Phase I, Site B, Tai Po, New Territories.

NOTICE OF GALAXY EGM



GALAXY ENTERTAINMENT GROUP LIMITED

銀河娛樂集團有限公司

(incorporated in Hong Kong with limited liability)

(Stock Code: 27)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Galaxy Entertainment Group Limited (the “Company”) will be held at Conrad Hong Kong, Chatham Room, Level 7, Pacific Place, 88 Queensway, Hong Kong at 10:00 a.m. on Wednesday, 21 November, 2007 for the purpose of considering and, if thought fit, passing the following resolutions, which will be proposed as ordinary resolutions with or without amendment:

ORDINARY RESOLUTIONS

1. **“THAT:**

- (a) the authorised share capital of the Company be increased from HK\$688,800,000 to HK\$900,000,000 by the creation of an additional 2,112,000,000 shares of HK\$0.10 each, which new shares shall rank *pari passu* in all respects with the existing shares in the capital of the Company;
- (b) each of:
 - (i) the Subscription Agreement (the “Subscription Agreement”) dated 8 October, 2007 between the Company, ENB LUX 1 S.à.r.l, ENB LUX 2 S.à.r.l and Permira IV L.P.1 for the subscription by, ENB LUX 1 S.à.r.l and ENB LUX 2 S.à.r.l of in aggregate 323,384,000 new shares in the Company;
 - (ii) the Investors’ Rights Agreement (the “Investors’ Rights Agreement”) dated 8 October, 2007 between the Company, ENB LUX 1 S.à.r.l, Permira IV L.P.1, City Lion Profits Corp., Super Focus Company Limited, Mark Liaison Limited, Premium Capital Profits Limited, Dr. Che-woo Lui, Recurrent Profits Limited, Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu concerning ENB LUX 1 S.à.r.l’s right to appoint directors to the board of the Company, amongst other things;
 - (iii) the FRN Conversion and Repayment Agreement (the “FRN Agreement”) dated 8 October, 2007 between the Company, City Lion Profits Corp. and Recurrent Profits Limited in relation to the conversion and repayment of the “Class B” Variable Rate Unsecured Loan Notes in aggregate principal

NOTICE OF GALAXY EGM

amount of HK\$2,371,805,067 issued by the Company on 22 July, 2005 (as subsequently amended on 14 January, 2006) and payable on 30 September, 2008;

(copies of which have been produced to this meeting marked “A1”, “A2” and “A3” respectively and initialed by the chairman of the meeting for identification) be and is hereby approved, ratified and confirmed and that the Directors of the Company be and are hereby authorised to implement all the transactions referred to in those agreements and to do all such acts and things and execute all such documents as might in the opinion of the Directors be desirable or necessary to give effect to those agreements and the arrangements contemplated thereunder including but not limited to the issue of the Subscription Shares referred to in the Subscription Agreement and the Conversion Shares referred to in the FRN Agreement; and

- (c) without prejudice to the generality of para (b) of this resolution the Directors of the Company be and are hereby authorised to issue any shares that may fall to be issued under the Anti-Dilution Rights granted in the Subscription Agreement up to a maximum number of 510,358,272 shares under authority of the general mandate to issue shares granted to the Directors at the annual general meeting of the Company held on 26 June, 2007.”
2. **“THAT** Martin Clarke be and is hereby appointed a Director of the Company with effect from Completion as defined in the Subscription Agreement dated 8 October, 2007 between the Company, ENB LUX 1 S.à.r.l, ENB LUX 2 S.à.r.l and Permira IV L.P.1 for the subscription by ENB LUX 1 S.à.r.l and ENB LUX 2 S.à.r.l of new shares in the Company.”
3. **“THAT** Guido Paolo Gamucci be and is hereby appointed a Director of the Company with effect from Completion as defined in the Subscription Agreement dated 8 October, 2007 between the Company, ENB LUX 1 S.à.r.l, ENB LUX 2 S.à.r.l and Permira IV L.P.1 for the subscription by ENB LUX 1 S.à.r.l and ENB LUX 2 S.à.r.l of new shares in the Company.”
4. **“THAT:**
- (a) subject to paragraph (b) below, the exercise by the Directors of the Company during the Relevant Period of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers either during or after the Relevant Period be and is hereby generally and unconditionally approved;

NOTICE OF GALAXY EGM

- (b) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to:
- (i) a Rights Issue;
 - (ii) the exercise of rights of subscription or conversion under the terms of any warrants issued by the Company or any securities which are convertible into shares of the Company;
 - (iii) the exercise of any option under the Company's share option schemes or similar arrangement for the time being adopted by the Company in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the grant or issue of shares or rights to acquire shares of the Company; or
 - (iv) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles of Association of the Company,

shall not exceed the aggregate of: (aa) 20% of the aggregate nominal amount of the issued share capital of the Company on the date of the passing of this resolution; and (bb) the nominal amount of share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum of 330,179,136 shares, being 10% of the share capital of the Company in issue on 26 June, 2007 pursuant to the authority granted by the Shareholders on that day), and this approval shall be limited accordingly, and

- (c) for the purposes of this resolution:

"Rights Issue" means an offer of shares open for a period fixed by the Directors of the Company to holders of shares of the Company on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong); and

"Relevant Period" means the period from the time of passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Companies Ordinance to be held; or

NOTICE OF GALAXY EGM

- (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.”
5. “**THAT** conditional upon the passing of the resolution numbered 4 in the notice convening this meeting, the general mandate granted to the Directors of the Company to exercise the powers of the Company pursuant to paragraph (a) of the resolution numbered 4 be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted by the shareholders at the annual general meeting held on 26 June, 2007, provided that such amount shall not exceed 330,179,136 shares, being 10% of the aggregate nominal amount of the issued share capital of the Company at the date of such annual general meeting.”

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

Dated 5 November, 2007

Registered Office:

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

Notes:

1. A blue form of proxy to be used for the meeting is enclosed. Completion and return of the blue form of proxy will not preclude a member of the Company from attending and voting in person at the meeting or any adjournment thereof and, in such event, the authority of the proxy will be deemed to be revoked.
2. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint another person as his proxy to attend and (on a poll) vote on his behalf. On a poll votes may be given either personally or by proxy. A proxy need not be a member of the Company. A member may appoint more than one proxy to attend on the same occasion.
3. The instrument appointing a proxy must be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.
4. To be valid, the instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the registered office of the Company at Room 1606, 16th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong (marked for the attention of the Company Secretary) not less than 48 hours before the time for holding the meeting and in default the instrument of proxy shall not be treated as valid.

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5. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such share shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased member in whose name any share stands shall for this purpose be deemed joint holders thereof.
6. All the resolutions will be voted on by way of poll.
7. At the date of this Notice, the executive directors of the Company are Dr. Che-woo Lui (Chairman), Mr. Francis Lui Yiu Tung, Mr. Chan Kai Nang, Mr. Joseph Chee Ying Keung and Ms. Paddy Tang Lui Wai Yu; the non-executive directors are Mr. Moses Cheng Mo Chi and Mr. Anthony Thomas Christopher Carter; and the independent non-executive directors are Dr. Charles Cheung Wai Bun, Mr. James Ross Ansell and Dr. William Yip Shue Lam.

NOTICE OF KWIH SGM



K. WAH INTERNATIONAL HOLDINGS LIMITED
嘉華國際集團有限公司

(incorporated in Bermuda with limited liability)

(Stock code: 173)

NOTICE IS HEREBY GIVEN that a special general meeting of K. Wah International Holdings Limited (“Company”) will be held at Conrad Hong Kong, Chatham Room, Level 7, Pacific Place, 88 Queensway, Hong Kong at 11:00 a.m. on Wednesday, 21 November, 2007 for the purpose of considering and, if thought fit, passing the following resolution (with or without amendment) which will be proposed as an ordinary resolution:

“**THAT** the agreement (the “Share Purchase Agreement”) dated 8 October, 2007 between Sutimar Enterprises Limited, ENB LUX 1 S.à.r.l, ENB LUX 2 S.à.r.l and the Company (as guarantor) in relation to the proposed disposal of 452,500,000 shares in Galaxy Entertainment Group Limited (a copy of which has been produced to this meeting and initialed by the chairman of the meeting for identification) be and is hereby approved, ratified and confirmed and that the Directors of the Company be and are hereby authorised to implement all the transactions referred to in the Share Purchase Agreement and to do all such acts and things and execute all such documents as might in the opinion of the Directors be desirable or necessary to give effect to the Share Purchase Agreement and the arrangements contemplated thereunder.”

*Principal place of business
in Hong Kong:*
29th Floor
K. Wah Centre
191 Java Road
North Point
Hong Kong

By Order of the Board
K. Wah International Holdings Limited
Ricky Chan Ming Tak
Company Secretary

Dated 5 November, 2007

Registered office:
Canon’s Court
22 Victoria Street
Hamilton HM 12
Bermuda

NOTICE OF KWIH SGM

Notes:

1. A WHITE form of proxy to be used for the meeting is enclosed. Completion and return of the form of proxy will not preclude a member of the Company from attending and voting in person at the meeting or any adjournment thereof and in such event, the authority of the proxy will be deemed to be revoked.
2. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint another person as his proxy to attend and, on a poll, vote instead of him. On a poll, votes may be given personally, by duly authorised corporate representative or by proxy. A proxy need not be a member of the Company. A member may appoint more than one proxy to attend on the same occasion.
3. The instrument appointing a proxy must be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.
4. To be valid, the instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the principal place of business in Hong Kong of the Company at 29th Floor, K. Wah Centre, 191 Java Road, North Point, Hong Kong (**marked for the attention of the Company Secretary**) not less than 48 hours before the time for holding the meeting and in default the instrument of proxy shall not be treated as valid.
5. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such share shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased member in whose name any share stands shall for this purpose be deemed joint holders thereof.
6. The resolution will be voted on by way of poll.
7. At the date of this Notice, the executive directors of the Company are Dr. Che-woo Lui (Chairman), Mr. Francis Lui Yiu Tung, Mr. Eddie Hui Ki On, Mr. Lennon Lun Tsan Kau and Ms. Paddy Tang Lui Wai Yu; the non-executive Directors are Mr. Michael Leung Man Kin and Dr. Philip Wong Kin Hang; and the independent non-executive directors are Sir David Akers-Jones, Dr. The Hon. Leo Lee Tung Hai, Dr. Robin Chan Yau Hing, Dr. Charles Cheung Wai Bun, and Mr. Robert George Nield.