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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)

RESUMPTION OF TRADING AND ISSUE OF ZERO COUPON CONVERTIBLE NOTES DUE 2011

The Company has entered into (1) the ML Subscription Agreement dated 5 December 2006 with Merrill Lynch; (2) the JPM Subscription Agreement dated 5 December 2006 with JP Morgan; and (3) the Note Purchase Agreement dated 5 December 2006 with the Purchasers, in connection with the issue by the Company of Zero Coupon Convertible Notes with an aggregate principal amount of US\$240,000,000 (approximately HK\$1,872,000,000).

The estimated net proceeds of the Convertible Note Issue, after deduction of commission and other expenses, are US\$235,150,000 (approximately HK\$1,834,170,000). The Directors intend that of the estimated net proceeds approximately 85% will be applied in funding the expansion of the Group's Cotai Mega Resort and the balance as working capital.

Assuming issue of a full US\$240,000,000 (approximately HK\$1,872,000,000) principal amount of Convertible Notes and full conversion of all of them at the Initial Conversion Price of HK\$9.36, 200,000,000 Conversion Shares will be issued, representing approximately (i) 6.07% of the existing issued share capital of the Company, being 3,296,019,361 Shares and (ii) 5.72% of the issued share capital of the Company as enlarged by the Conversion Shares.

Lock-Up Undertakings

The Company has amongst other things given undertakings in the Agreements not to issue any new Shares for a period of 90 days after the Closing Date. Details of these undertakings are set out below.

As is commonplace in transactions of this nature, the Agreements referred to above are all subject to the satisfaction and/or waiver of certain conditions as described in this announcement and may be terminated in certain circumstances as described herein. In such circumstances, some or all of the Agreements may or may not complete and Shareholders and prospective investors in the Company are advised to exercise caution when dealing in its securities.

At the request of the Company, trading in the Shares on the Stock Exchange was suspended at 9.42 a.m. on 4 December 2006 pending the release of this announcement. Application has been made by the Company for the resumption of trading in the Shares on the Stock Exchange with effect from 9.30 a.m. on 7 December 2006.

The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

Merrill Lynch and JP Morgan are acting as joint placing agents.

ML SUBSCRIPTION AGREEMENT

Date: 5 December 2006

Parties: (1) The Company.
(2) Merrill Lynch.

Merrill Lynch

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Merrill Lynch is a third party independent of both the Company and any connected persons of the Company.

Subject to the fulfilment of the conditions set out below under the section headed "Conditions of the ML Subscription Agreement", Merrill Lynch has agreed, inter alia, to subscribe and pay for, or to procure subscribers (who are not connected persons and are third parties independent of the Company and of its connected persons) to subscribe and pay for, an aggregate US\$25,000,000 (approximately HK\$195,000,000) principal amount of Convertible Notes. Assuming exercise in full of the Conversion Rights attaching to those Convertible Notes an aggregate of 20,833,333 Conversion Shares would fall to be issued at the Initial Conversion Price of HK\$9.36 (representing 0.63% of the existing issued Shares and 0.63% of the existing issued Shares as enlarged by those Conversion Shares) and an aggregate of 26,209,677 Conversion Shares would fall to be issued at a Revised Conversion Price (based on the Floor Price) of HK\$7.44 (based on an Initial Reference Price of HK\$7.80) (representing 0.80% of the existing issued Shares and 0.79% of the existing issued Shares as enlarged by those Conversion Shares).

Conditions of the ML Subscription Agreement

Completion of this Agreement is not conditional upon completion of either of the other Agreements. The obligations of Merrill Lynch to subscribe or procure subscribers for the Convertible Notes under the ML Subscription Agreement are subject to conditions precedent to the following effect, amongst others:

1. the Stock Exchange having agreed, subject to any conditions satisfactory to Merrill Lynch, to list the Conversion Shares; and
2. prior to the Closing Date, (i) there shall not have occurred any downgrading, nor shall any notice have been given of any intended or potential downgrading or of any review for a possible change that does not indicate the direction of the possible change in the rating accorded the Company or any Subsidiary or any of the debt securities of the Company or any Subsidiary or in the rating outlook for the Company or any Subsidiary by any "nationally recognized statistical rating organization", as such term is defined for purposes of Rule 436(g)(2) under the US Securities Act, provided however, this provision shall not apply to any downgrading or potential downgrading resulting solely from the issuance of the Convertible Notes and (ii) there shall not have occurred any change, or any development involving a prospective change, in the condition, financial or otherwise, or in the earnings, business or operations of the Company and any of its Subsidiaries, taken as a whole, from that set forth in the Public Documents (as defined in the ML Subscription Agreement) that, in the judgement of Merrill Lynch, is material and adverse.

Lock-Up Undertakings

The Company has undertaken to Merrill Lynch in the ML Subscription Agreement that for a period of 90 days from and including the Closing Date, the Company will not (a) offer, sell, contract to sell, pledge, grant any option to purchase, make any short sale or otherwise dispose of, either conditionally or unconditionally, or directly or indirectly, or otherwise, any Shares or any securities of the same class as the Shares or Convertible Notes or any interests in Shares or Convertible Notes or any securities convertible into or exercisable or exchangeable for or substantially similar to any Shares or Convertible Notes or interest in Shares or Convertible Notes or (collectively, the “**ML Locked Securities**”), (b) enter into, or agree (conditionally or unconditionally) to enter into, a transaction that would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of such ML Locked Securities, whether any of these transactions are to be settled by delivery of ML Locked Securities or other securities, in cash or otherwise or (c) publicly announce any intention to enter into or effect any such transaction described in (a) or (b) above without first having obtained the written consent of Merrill Lynch. This will not restrict the Company from the issuance of Shares under the following circumstances: (i) pursuant to the terms of any employee share option scheme of the Company; (ii) in connection with the issuance of bonus or scrip dividend or similar arrangements which provide for the allotment of Shares in lieu of the whole or part of a dividend on Shares of the Company in accordance with its articles of association; (iii) as a result of the conversion of any outstanding convertible bonds, including the Convertible Notes; and (iv) in connection with a one-time primary offering of Shares, the gross proceeds of which shall not exceed US\$300 million translated into Hong Kong dollars.

Termination

The ML Subscription Agreement may be terminated in certain circumstances, commonplace in transactions of this nature. Amongst others, it includes provisions to the effect that Merrill Lynch may terminate the ML Subscription Agreement if prior to the Closing Date:

1. trading generally is suspended or materially limited on, or by, any of the New York Stock Exchange, the Nasdaq Global Market or the Stock Exchange;
2. trading of any securities of the Company or any of its Subsidiaries is suspended on any exchange or in any over-the-counter market;
3. there is material disruption in securities settlement, payment or clearance services in the United States or Hong Kong;
4. any moratorium on commercial banking activities is declared by Federal, New York State or Hong Kong authorities; or
5. there is any outbreak or escalation of hostilities, or any change in financial markets, currency exchange rates or controls or any calamity or crisis that, in the judgment of Merrill Lynch, is material and adverse and which, singly or together with any other event specified in this sub-paragraph (5), makes it, in the judgment of Merrill Lynch, impracticable or inadvisable to proceed with the offer, sale or delivery of the Convertible Notes.

Subject to the foregoing, the ML Subscription Agreement is expected to be completed, and Convertible Notes to be issued under it, on the Closing Date.

JPM SUBSCRIPTION AGREEMENT

Date: 5 December 2006

Parties: (1) The Company.
(2) JP Morgan.

JP Morgan

JP Morgan, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, is a third party independent of both the Company and any connected persons of the Company.

Subject to the fulfilment of the conditions set out below under the section headed "Conditions of the JPM Subscription Agreement", JP Morgan has agreed, inter alia, to subscribe and pay for, or procure subscribers (who are not connected persons and are third parties independent of the Company and of its connected persons) to subscribe and pay for, an aggregate US\$55,000,000 (approximately HK\$429,000,000) principal amount of Convertible Notes.

Assuming exercise in full of the Conversion Rights attaching to those Convertible Notes an aggregate of 45,833,333 Conversion Shares would fall to be issued at the Initial Conversion Price of HK\$9.36 (representing 1.39% of the existing issued Shares and 1.37% of the existing issued Shares as enlarged by those Conversion Shares) and an aggregate of 57,661,290 Conversion Shares would fall to be issued at a Revised Conversion Price (based on the Floor Price) of HK\$7.44 based on an Initial Reference Price of HK\$7.80 (representing 1.75% of the existing issued Shares and 1.72% of the existing issued Shares as enlarged by those Conversion Shares).

Conditions of the JPM Subscription Agreement

Completion of this Agreement is not conditional upon completion of either of the other Agreements. The obligations of JP Morgan to subscribe or procure subscribers for the Convertible Notes under the JPM Subscription Agreement are subject to conditions precedent to the following effect, amongst others:

1. the Stock Exchange having agreed, subject to any conditions satisfactory to JP Morgan, to list the Conversion Shares; and
2. prior to the Closing Date, (i) there shall not have occurred any downgrading, nor shall any notice have been given of any intended or potential downgrading or of any review for a possible change that does not indicate the direction of the possible change in the rating accorded the Company or any Subsidiary or any of the debt securities of the Company or any Subsidiary or in the rating outlook for the Company or any Subsidiary by any "nationally recognized statistical rating organization", as such term is defined for purposes of Rule 436(g)(2) under the US Securities Act provided, however, this provision shall not apply to any downgrading or potential downgrading resulting solely from the issuance of the Convertible Notes and (ii) there shall not have occurred any change, or any development involving a prospective change, in the condition, financial or otherwise, or in the earnings, business or operations of the Company and any of its Subsidiaries, taken as a whole, from that set forth in the Public Documents (as defined in the JPM Subscription Agreement) that, in the judgement of JP Morgan, is material and adverse.

Lock-Up Undertakings

The Company has undertaken to JP Morgan in the JPM Subscription Agreement that for a period of 90 days from and including the Closing Date, the Company will not (a) offer, sell, contract to sell, pledge, grant any option to purchase, make any short sale or otherwise dispose of, either conditionally or unconditionally, or

directly or indirectly, or otherwise, any Shares or any securities of the same class as the Shares or Convertible Notes or any interests in Shares or Convertible Notes or any securities convertible into or exercisable or exchangeable for or substantially similar to any Shares or Convertible Notes or interest in Shares or Convertible Notes or (collectively, the “**JPM Locked Securities**”), (b) enter into, or agree (conditionally or unconditionally) to enter into, a transaction that would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of such JPM Locked Securities, whether any of these transactions are to be settled by delivery of JPM Locked Securities or other securities, in cash or otherwise or (c) publicly announce any intention to enter into or effect any such transaction described in (a) or (b) above without first having obtained the written consent of JP Morgan. This will not restrict the Company from the issuance of Shares under the following circumstances: (i) pursuant to the terms of any employee share option scheme of the Company; (ii) in connection with the issuance of bonus or scrip dividend or similar arrangements which provide for the allotment of Shares in lieu of the whole or part of a dividend on Shares of the Company in accordance with its articles of association; (iii) as a result of the conversion of any outstanding convertible bonds, including the Convertible Notes; and (iv) in connection with a one-time primary offering of Shares, the gross proceeds of which shall not exceed US\$300 million translated into Hong Kong dollars.

Termination

The JPM Subscription Agreement may be terminated in certain circumstances, commonplace in transactions of this nature. Amongst others, it includes provisions to the effect that JP Morgan may terminate the JPM Subscription Agreement if prior to the Closing Date:

1. trading generally is suspended or materially limited on, or by, any of the New York Stock Exchange, the Nasdaq Global Market or the Stock Exchange;
2. trading of any securities of the Company or any of its Subsidiaries is suspended on any exchange or in any over-the-counter market;
3. there is material disruption in securities settlement, payment or clearance services in the United States or Hong Kong;
4. any moratorium on commercial banking activities is declared by Federal, New York State or Hong Kong authorities; or
5. there is any outbreak or escalation of hostilities, or any change in financial markets, currency exchange rates or controls or any calamity or crisis that, in the judgment of JP Morgan, is material and adverse and which, singly or together with any other event specified in this sub-paragraph (5), makes it, in the judgment of JP Morgan, impracticable or inadvisable to proceed with the offer, sale or delivery of the Convertible Notes.

Subject to the foregoing, the JPM Subscription Agreement is expected to be completed, and Convertible Notes to be issued under it, on the Closing Date.

NOTE PURCHASE AGREEMENT

Date: 5 December 2006

Parties: (1) The Company.
(2) The Purchasers.

Purchasers

The Purchasers, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, are third parties independent of both the Company and any connected persons of the Company. There are four Purchasers and they are all international investment funds. Together with Merrill Lynch and JP Morgan, there are thus six persons committed to subscribing for the Convertible Notes.

The Purchasers, severally and not jointly, have agreed, inter alia, to purchase from the Company in aggregate US\$160,000,000 (approximately HK\$1,248,000,000) principal amount of Convertible Notes at the Purchase Price of 100% of the principal amount.

Assuming exercise in full of the Conversion Rights attaching to those Convertible Notes an aggregate of 133,333,333 Conversion Shares would fall to be issued at the Initial Conversion Price of HK\$9.36 (representing 4.05% of the existing issued Shares and 3.89% of the existing issued Shares as enlarged by those Conversion Shares) and an aggregate of 167,741,935 Conversion Shares would fall to be issued at a Revised Conversion Price (based on the Floor Price) of HK\$7.44 based on an Initial Reference Price of HK\$7.80 (representing 5.09% of the existing issued Shares and 4.84% of the existing issued Shares as enlarged by those Conversion Shares).

Conditions of the Note Purchase Agreement

Completion of this Agreement is not conditional upon completion of either of the other Agreements. The obligations of the Purchasers to purchase the Convertible Notes under the Note Purchase Agreement are subject to conditions precedent to the following effect, amongst others. The Company's obligation to issue the Convertible Notes to the Purchasers is subject to the following conditions:

1. receipt by the Company of immediately available funds in the full amount of the Purchase Price for the relevant Convertible Notes; and
2. the representations and warranties made by the Purchasers being accurate and the fulfillment in all material respects of those undertakings of the Purchasers to be fulfilled prior to the Closing Date.

The obligations of the Purchasers to purchase and pay for the Convertible Notes on the Closing Date are subject to conditions to the following effect, amongst others:

1. prior to the Closing Date, (i) there shall not have occurred any downgrading, nor shall any notice have been given of any intended or potential downgrading or of any review for a possible change that does not indicate the direction of the possible change in the rating accorded the Company or any Subsidiary or any of the debt securities of the Company or any Subsidiary or in the rating outlook for the Company or any Subsidiary by any "nationally recognized statistical rating organization," as such term is defined for purposes of Rule 436(g)(2) under the US Securities Act provided, however, this provision shall not apply to any downgrading or potential downgrading resulting solely from the issuance of the Convertible Notes and (ii) there shall not have occurred any change, or any development involving a prospective change, in the condition, financial or otherwise, or in the earnings, business or operations of the Company and its Subsidiaries, taken as a whole, from that set forth in the Public Documents (as defined in the Note Purchase Agreement) that, in the judgment of the Purchasers, is material and adverse; and
2. conditional approval by the Stock Exchange in respect of the listing and permission to deal in the Conversion Shares.

Subject to the foregoing, the Note Purchase Agreement is expected to be completed, and Convertible Notes to be issued under it, on the Closing Date.

Lock-up Undertaking

The Company has undertaken to the Purchasers in the Note Purchase Agreement that, for a period of 90 days from and including the Closing Date, the Company will not, (a) offer, sell, contract to sell, pledge, grant any option to purchase, make any short sale or otherwise dispose of, either conditionally or unconditionally, or directly or indirectly, or otherwise, any Shares or any securities of the same class as the Shares or Convertible Notes or any interests in Shares or Convertible Notes or any securities convertible into or exercisable or exchangeable for or substantially similar to any Shares or Convertible Notes or interest in Shares or Convertible Notes or (collectively, the “**Purchaser Locked Securities**”), (b) enter into, or agree (conditionally or unconditionally) to enter into, a transaction that would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of such Purchaser Locked Securities, whether any of these transactions are to be settled by delivery of Purchaser Locked Securities, whether any of these transactions are to be settled by delivery of Purchaser Locked Securities or other securities, in cash or otherwise, or (c) publicly announce any intention to enter into or effect any such transaction described in (a) or (b) above without first having obtained the written consent of the Lead Purchaser. This will not restrict the Company from the issuance of Shares: (i) pursuant to the terms of any employee share option scheme of the Company; (ii) in connection with the issuance of bonus or scrip dividend or similar arrangements which provide for the allotment of Shares in lieu of the whole or part of a dividend on Shares of the Company in accordance with its articles of association; (iii) as a result of the conversion of any outstanding convertible bonds, including the Convertible Notes; and (iv) in connection with a one-time primary offering of Shares, the gross proceeds of which shall not exceed US\$300 million translated into Hong Kong dollars.

Termination

The Note Purchase Agreement may be terminated in certain circumstances, commonplace in transactions of this nature. Amongst others, it includes provisions to the effect that the Lead Purchasers may terminate the Note Purchase Agreement if prior to the Closing Date:

1. trading generally is suspended or materially limited on, or by, any of the New York Stock Exchange, the Nasdaq Global Market or the Stock Exchange;
2. trading of any securities of the Company or any of its Subsidiaries is suspended on any exchange or in any over-the-counter market;
3. there is material disruption in securities settlement, payment or clearance services in the United States or Hong Kong;
4. any moratorium on commercial banking activities is declared by Federal, New York State or Hong Kong authorities; or
5. there is any outbreak or escalation of hostilities, or any change in financial markets, currency exchange rates or controls or any calamity or crisis that, in the judgment of the Lead Purchasers, is material and adverse and which, singly or together with any other event specified in this subparagraph (5), makes it, in the judgment of the Lead Purchaser, impracticable or inadvisable to proceed with the offer, sale or delivery of the Convertible Notes.

Subject to the foregoing, the Note Purchase Agreement is expected to be completed, and Convertible Notes to be issued under it, on the Closing Date.

PRINCIPAL TERMS OF THE CONVERTIBLE NOTES

The principal material terms of the Convertible Notes, which will be constituted by the Indenture, are summarised as follows:

Principal Amount

The aggregate principal amount of the Convertible Notes will be US\$240,000,000 (approximately HK\$1,872,000,000).

Issue Price and Redemption Price

100% of the principal amount of the Convertible Notes.

Maturity

The expected maturity date is 14 December 2011 (assuming the Closing Date is 14 December 2006) subject as mentioned below.

Yield to Maturity

Nil

Conversion Right

Conversion Period

A Holder will have the right to convert the Convertible Notes in whole or in part, into Shares at any time during the Conversion Period provided that any conversion shall be in a minimum denomination of US\$1,000,000 and integral multiples of US\$1,000 in excess thereof. The Conversion Right may be exercised, at the option of the Holder, at any time during the Conversion Period, provided that if a Change of Control has occurred, the Conversion Right attaching to any Convertible Note may be exercised, at the option of the Holder, at any time after the Issue Date up to the Maturity Date.

Conversion Ratio

The number of Shares to be issued on conversion of a Convertible Note will be determined by dividing the principal amount of the Convertible Note to be converted by the Conversion Price in effect on the Conversion Date.

Conversion Price

The price at which Shares will be issued upon conversion will be the Conversion Price.

The Initial Conversion Price of HK\$9.36 per Conversion Share represents a 11.43% premium to the closing price of HK\$8.40 per Share quoted on the Stock Exchange on 1 December 2006, being the last trading day prior to suspension of trading in the Shares, and a 11.38% premium to the average closing price of HK\$8.404 per Share quoted on the Stock Exchange for the last five trading days up to and including 1 December 2006.

A Revised Conversion Price (based on the Floor Price) of HK\$7.44 per Conversion Share (based on the Floor Price and the Initial Conversion Price) represents a 11.43% discount to the closing price of HK\$8.40 per Share quoted on the Stock Exchange on 1 December 2006 being the last trading day prior to suspension of trading in the Shares, and a 11.47% discount to the average closing price of HK\$8.404 per Share quoted on the Stock Exchange for the last five trading days up to and including 1 December 2006.

The Revised Conversion Price (based on the Floor Price) is the minimum conversion price, no Conversion Shares will be issued below such price under the Agreements. Assuming full conversion of US\$240,000,000 principal amount of Convertible Notes at a Revised Conversion Price of HK\$7.44 (based on the Floor Price), a maximum 251,612,903 Conversion Shares will be issued, representing approximately 7.63% of the existing issued share capital of the Company and approximately 7.09% of the existing issued share capital of the Company as enlarged by the Conversion Shares.

The Conversion Price will be subject to adjustment on the happening of certain events, as is typically seen in securities of this nature. These include a consolidation or subdivision then prevailing traded prices of Shares, and the issue of new Shares at a price below then prevailing Market Prices.

The Conversion Price and its adjustments were determined after arm's length negotiations with JP Morgan, Merrill Lynch and the Purchasers and the Directors consider it to be fair and reasonable bearing in mind that the Convertible Notes will not carry interest.

Revival and/or Survival after Default

If (a) the Company shall default in making payment in full in respect of any Convertible Note which shall have been called for redemption on the date fixed for redemption thereof, (b) any Convertible Note has become due and payable prior to the Maturity Date by reason of the occurrence of an event of default thereunder or (c) any Convertible Note is not redeemed on the Maturity Date, the Conversion Right attaching to such Convertible Note will revive and/or will continue to be exercisable up to, and including, the close of business on the date upon which the full amount of the moneys payable in respect of such Convertible Note has been duly received by each Holder and notice of such receipt has been duly given to the Holders and, notwithstanding the provisions relating to the Conversion Period and Conversion Ratio set out above, any Convertible Note in respect of which the certificate and Conversion Notice are deposited for conversion prior to such date shall be converted on the relevant Conversion Date notwithstanding that the full amount of the moneys payable in respect of such Convertible Note shall have been received by the Holders before such Conversion Date or that the Conversion Period may have expired before such Conversion Date.

Reset Mechanism

If the average Market Price for the Shares for any of the eight 13 consecutive-week periods (each, a “**Relevant Period**”) beginning on the Issue Date and ending prior to the second anniversary of the Issue Date is lower than the then applicable Initial Reference Price, then the then applicable Initial Reference Price shall be revised at the beginning of the next Relevant Period and be for such next Relevant Period the greater of (x) such average Market Price for the preceding Relevant Period and (y) the Floor Price, and such then applicable Initial Reference Price as so revised shall constitute the Revised Reference Price for such next Relevant Period, subject to adjustment pursuant to the terms of the Indenture.

If the average Market Price for the Shares for any Relevant Period is equal to or greater than the then applicable Initial Reference Price, then the Initial Reference Price shall be revised at the beginning of the next Relevant Period and be for such next Relevant Period the lesser of (x) such average Market Price for the preceding Relevant Period and (y) the Cap Price, and such then applicable Initial Reference Price as so revised shall constitute the Revised Reference Price for such next Relevant Period, subject to adjustment pursuant to the terms of the Indenture.

The Revised Reference Price in effect on the date immediately prior to the second anniversary of the Issue Date will constitute the Revised Reference Price for all purposes thereafter, subject to adjustment pursuant to the terms of the Indenture.

Transfer

A Holder of a Convertible Note will be permitted to freely transfer and assign all of its rights and obligations under the Convertible Note to a transferee in a minimum denomination of US\$1,000,000 and integral multiples of US\$1,000 in excess thereof, provided the transferee represents that it is not a listed gaming company or any entity controlled by a listed gaming company.

Redemption

On or at any time after the first anniversary (expected to be 14 December 2007) of the Closing Date, the Company may, having given not less than 30 nor more than 60 days notice to the Holders, redeem, on one or more occasions at 100% of the principal amount thereof up to one-third of the principal amount of the Convertible Notes in the aggregate for all outstanding Convertible Notes but (i) the first such redemption may be made only if the Market Price of the Shares for each of any 30 dealing days falling within a period of 40 consecutive dealing days, the last day of which period occurs no more than five dealing days prior to the date upon which notice of such redemption is given, was at least 130% of the then applicable Initial Reference Price, (ii) the second such redemption may be made only if the Market Price of the Shares for each of any 30 dealing days falling within a period of 40 consecutive dealing days (which may be the same 40-day period referred to in sub-paragraph (i)), the last day of which period occurs no more than five dealing days prior to the date upon which notice of such redemption is given, was at least 145% of the then applicable Initial Reference Price and (iii) the third such redemption may be made only if the Market Price of the Shares for each of any 30 dealing days falling within a period of 40 consecutive dealing days (which may be the same 40-day period referred to in sub-paragraph (ii)), the last day of which period occurs no more than five dealing days prior to the date upon which notice of such redemption is given, was at least 160% of the then applicable Initial Reference Price then in effect.

If a Change of Control occurs with respect to the Company at any time between the Issue Date and the Maturity Date, each Holder shall have the right at such Holder's option, to require the Company to repurchase all (or any portion of the principal amount thereof in a minimum denomination of US\$1,000,000 and integral multiples of US\$1,000 in excess thereof) of such Holder's Convertible Notes on the date set by the Company for such repurchase at a price equal to 100% of the outstanding principal amount thereof.

Final Redemption at Maturity

Unless previously redeemed and cancelled, or converted, the Company will redeem the Convertible Notes on the Maturity Date at a price payable in cash equal to 100% of the unpaid principal amount thereof. The Convertible Notes may be redeemed prior to the Maturity Date only as described above.

Form of the Convertible Notes

The Convertible Notes will be constituted by the Indenture and issued in registered form in a minimum denomination of US\$1,000,000 and integral multiples of US\$1,000.

Ranking of the Convertible Notes

The Convertible Notes will constitute direct, unsubordinated, unconditional and (subject as mentioned in the paragraph headed "Negative Pledge" below) unsecured obligations of the Company and shall at all times rank *pari passu* and without any preference or priority among themselves. The payment obligations of the Company under the Convertible Notes will, save for such exceptions as may be provided by applicable legislation and (subject as mentioned in the paragraph headed "Negative Pledge" below) at all times rank at least equally with all of its other present and future unsecured and unsubordinated obligations.

Listing

The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares. No application will be made for the listing of, and permission to deal in, the Convertible Notes or Conversion Shares on any other stock exchange.

Negative Pledge

So long as any Convertible Note remains outstanding, the Company will not, and the Company will not permit any of its Subsidiaries to, create or permit to subsist, any mortgage, charge, pledge, lien or other form of encumbrance or security interest upon the whole or any part of its undertaking, assets or revenues, present or future, to secure any International Investment Securities or to secure any guarantee of or indemnity in respect of any International Investment Securities unless, at the same time or prior thereto, the Company's obligations under the Convertible Notes (a) are secured equally and rateably therewith to the satisfaction of the Trustee, or (b) have the benefit of such other security, guarantee, indemnity or other arrangement as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Holders or as shall be approved by the Trustee.

The Company will not, directly or indirectly, incur, assume or permit to exist any lien of any nature whatsoever on any of its assets or properties of any kind, whether owned at the Issue Date or thereafter acquired, except certain permitted liens, unless the Convertible Notes are secured equally and ratably with (or, if the obligation to be secured by the lien is subordinated in right of payment to the Convertible Notes, prior to) the obligations so secured for so long as such obligations are so secured.

EFFECTS OF CONVERSION ON ISSUED SHARE CAPITAL OF THE COMPANY

Assuming issue of a full US\$240,000,000 (approximately HK\$1,872,000,000) principal amount of Convertible Notes and full conversion of them all at:

- (a) the Initial Conversion Price of HK\$9.36, 200,000,000 Conversion Shares will be issued, representing approximately (i) 6.07% of the existing issued share capital of the Company of 3,296,019,361 Shares and (ii) 5.72% of the existing issued share capital of the Company as enlarged by the Conversion Shares;
- (b) a Conversion Price of HK\$7.44, (based on the Floor Price and the Initial Reference Price) 251,612,903 Conversion Shares will be issued, representing approximately (i) 7.63% of the existing issued share capital of the Company of 3,296,019,361 Shares and (ii) 7.09% of the existing issued share capital of the Company as enlarged by the Conversion Shares.

Set out below is the shareholding structure of the Company as at the date of this announcement showing the effect of full conversion of US\$240,000,000 aggregate principal amount of Convertible Notes at the Initial Conversion Price of HK\$9.36, assuming there is no change in the issued share capital of the Company before the conversion of the Convertible Notes:

	At date of announcement		Immediately after full conversion of the Convertible Notes at the Initial Conversion Price of HK\$9.36		Immediately after full conversion of the Convertible Notes at a Revised Conversion Price (based on the Floor Price) of HK\$7.44	
	No. of shares	%	No. of shares	%	No. of shares	%
K. Wah International Holdings Limited	614,984,047	18.66	614,984,047	17.59	614,984,047	17.34
Dr. Lui, his spouse, companies controlled by Dr. Lui and family trusts	1,381,606,735	41.92	1,381,606,735	39.52	1,381,606,735	38.94
Other Directors	180,105,190	5.46	180,105,190	5.15	180,105,190	5.08
Other Connected Persons	244,071,556	7.41	244,071,556	6.98	244,071,556	6.88
Public Shareholders	875,251,833	26.55	1,075,251,833	30.76	1,126,864,736	31.76
Total	<u>3,296,019,361</u>	<u>100</u>	<u>3,496,019,361</u>	<u>100</u>	<u>3,547,632,264</u>	<u>100</u>

1. “Other Directors” refers to Mr. Francis Lui Yiu Tung, Ms. Paddy Lui Wai Yu, Mr. William Lo Chi Chung, Mr. Chee Ying Keung all of whom are executive Directors and Dr. Charles Cheung Wai Bun an independent non-executive Director (including corporate interests)
2. “Other Connected Persons” refers to certain family members of Dr. Lui (including corporate interests) and Future Leader Management Limited

NET PROCEEDS, REASONS FOR AND BENEFITS OF THE CONVERTIBLE NOTE ISSUE

The estimated net proceeds of the Convertible Note Issue after deduction of commission and other expenses are US\$235,150,000 (approximately HK\$1,834,170,000). At present the Directors intend that of the estimated net proceeds approximately 85% will be applied in funding the expansion of the Group’s Cotai Mega Resort and as working capital.

The Directors of the Company consider that the Convertible Note Issue will strengthen the capital base of the Company. They will raise significant capital for the Company without the interest costs often associated with debt finance and, assuming conversions of the Convertible Notes, will increase its permanent equity capital.

The Directors consider that the terms of the Agreements fair and reasonable and in the best interest of the Shareholders and the Company as a whole.

INFORMATION ON THE GROUP

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

FUND RAISING IN THE LAST 12 MONTHS

The Company has not issued any equity securities or convertible notes to raise funds in the 12 months immediately preceding the date of this announcement.

GENERAL

The Conversion Shares issuable upon conversion of the Convertible Notes by the Company will be issued pursuant to the general mandate granted to the Directors at the annual general meeting held on 29 June 2006. At the date of this announcement, no Share has been allotted and issued pursuant to such general mandate.

Merrill Lynch and JP Morgan are acting as joint placing agents.

The Company will make further announcements as and when appropriate to keep Shareholders informed with respect to completion of the Agreements.

SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange was suspended at 9.42 a.m. on 4 December 2006 pending the release of this announcement. Application has been made by the Company for the resumption of trading in the Shares on the Stock Exchange with effect from 9.30 a.m. on 7 December 2006.

As is commonplace in transactions of this nature, completion of the Agreements is subject to the satisfaction and/or waiver of certain conditions as described in this announcement and they may be terminated in certain circumstances as described herein.

As some or all of the Agreements may or may not complete, Shareholders and prospective investors in the Company are advised to exercise caution when dealing in its securities.

DEFINITIONS

In this announcement, the following terms have the meanings set opposite them.

“Agreements”	the ML Subscription Agreement, JPM Subscription Agreement and Note Purchase Agreement
“Cap Price”	the Initial Reference Price
“Company”	Galaxy Entertainment Group Limited, a company incorporated in Hong Kong with limited liability, whose shares are listed on the Main Board of the Stock Exchange
“Completion”	completion of one or more of the Agreements as the case may be
“Change of Control”	occurs when: (i) any person or persons acting together acquires Control of the Company if such person or persons does not or do not have, and would not be deemed to have, Control of the Company on the Closing Date; or (ii) the Company consolidates with or merges into or sells or transfers all or substantially all of the Company’s assets to any other person, unless the consolidation, merger, sale or transfer will not result in the other person or persons acquiring Control over the Company or the successor entity
“Closing Date”	the date (expected to be on or around 14 December 2006) on which the Convertible Notes are first issued

“Control”	the right to appoint and/or remove all or the majority of the members of the Company’s board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise
“Conversion Date”	in respect of a Convertible Note the date on which the Holder delivers a Conversion Notice therefor to the Company
“Conversion Notice”	a notice from a Holder to the Company exercising its Conversion Rights
“Conversion Price”	the price at which Shares will be issued upon exercise of Conversion Rights which will be: <ul style="list-style-type: none"> (i) to the extent a Holder exercises its Conversion Right with respect to a principal amount of Convertible Notes that have been called for redemption by the Company under the terms of the Indenture, the then applicable Initial Conversion Price translated into U.S. dollars at the Fixed Exchange Rate with respect to such principal amount of Convertible Notes; and (ii) in all other cases, the then applicable Revised Conversion Price translated into U.S. dollars at the Fixed Exchange Rate, subject to adjustments
“Conversion Period”	in respect of a Convertible Note, the period commencing on and after the date that is six months after the Closing Date (expected to be 14 June 2007) up to the Maturity Date or if such Convertible Note shall have been called for redemption before the Maturity Date, then up to the close of business on the date two business days prior to the date fixed for redemption thereof
“Conversion Right”	the rights of a Holders under the Convertible Notes to convert the principal amount thereof into Shares
“Conversion Shares”	Shares issuable on exercise of Conversion Rights
“Convertible Note Issue”	the subscription and issue of the Convertible Notes under the Agreements
“Convertible Note(s)”	the zero-coupon convertible notes to be issued by the Company as described herein
“Directors”	directors of the Company
“Dr. Lui”	Dr. Lui Che Woo, the Chairman of the Company
“Fixed Exchange Rate”	the rate of US\$1.00=HK\$7.80
“Floor Price”	the Initial Reference Price multiplied by 0.79487 and rounded to the nearest two decimal places
“Group”	the Company and its Subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

“Holder(s)”	holder(s) of the Convertible Note(s)
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China
“Indenture”	an indenture to be entered into by the Company and the Trustee constituting the Convertible Notes and setting out the terms and conditions applicable to them
“Initial Conversion Price”	the then applicable Initial Reference Price multiplied by 1.20
“Initial Reference Price”	HK\$7.80 per Share subject to adjustment pursuant to the terms of the Indenture
“International Investment Securities”	bonds, debentures, notes or other investment securities, denominated in Hong Kong dollars or otherwise, with a maturity of not less than one year which are for the time being, or are intended to be quoted, listed, ordinarily dealt in or traded on any stock exchange, quotation system or over-the-counter market or other securities market outside Hong Kong
“Issue Date”	the date of issue of the Convertible Notes, which is expected to be the Closing Date
“J P Morgan”	J.P. Morgan Securities Limited
“JPM Subscription Agreement”	a subscription agreement dated 5 December 2006 between the Company and JP Morgan relating to the placing and issue of US\$55,000,000 (approximately HK\$429,000,000) principal amount of Convertible Notes
“Lead Purchaser”	the Purchaser acting as the representative of the Purchasers for the purposes of the Note Purchase Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Market Price”	in respect of a Share for any date, the closing price published in the Stock Exchange’s daily quotations sheet for shares traded on the Stock Exchange (or, if the Shares are no longer listed on the Stock Exchange, the equivalent quotations sheet of an alternative stock exchange, as the case may be) for one Share (assuming a transaction in a board lot) for such date
“Maturity Date”	the final day on which the Convertible Notes will become due and payable, which is expected to be 14 December 2011
“Merrill Lynch “	Merrill Lynch Far East Limited
“ML Subscription Agreement”	a subscription agreement dated 5 December 2006 between the Company and Merrill Lynch relating to the placing and issue of US\$25,000,000 (approximately HK\$195,000,000) principal amount of Convertible Notes
“Note Purchase Agreement”	a purchase agreement dated 5 December 2006 between the Company and the Purchasers relating to the issue and purchase of in aggregate US\$160,000,000 (approximately HK\$1,248,000,000) principal amount of Convertible Notes
“Purchase Price”	in respect of a Convertible Note, 100% of the principal amount thereof

“Purchasers”	four independent third parties, all of which are international investment funds
“Revised Conversion Price”	the Revised Reference Price multiplied by 1.20
“Revised Reference Price”	the price determined as referred to in the paragraph headed “Principal Terms of the Convertible Notes — Reset Mechanism”
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holders of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiary”	a subsidiary of the Company
“Trustee”	the trustee, to be appointed in the Indenture, of the Convertible Notes
“US\$” or “U.S. dollars”	US dollars, the lawful currency of the United States of America

For the purposes of this announcement certain sums in US\$ have been translated into HK\$ at the rate of US\$1.00 = HK\$7.80.

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

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

Hong Kong, 6 December 2006

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