

# REPORT OF THE DIRECTORS

The directors have pleasure in presenting to the shareholders their annual report together with the audited financial statements of the Company and the Group for the year ended 31st December 2005.

## ACQUISITION OF GAMING AND ENTERTAINMENT BUSINESS AND CHANGE OF COMPANY NAME

On 22nd July 2005, the acquisition (the "Acquisition") of 88.1% of the voting shares carrying 97.9% of the economic interest (the "Galaxy Shares") in Galaxy Casino, S.A. ("Galaxy") by Canton Treasure Group Ltd. ("Canton Treasure"), a wholly owned subsidiary of the Company, at the purchase price of HK\$18,405,198,023, was completed. Galaxy is a company incorporated in Macau holding one of only three gaming concessions awarded by the Macau government to operate casinos in Macau.

Following the Acquisition, gaming and entertainment have become the major business of the Group. To better reflect this new business focus, the shareholders of the Company approved at the extraordinary general meeting duly convened and held on 12th October 2005 the change of name of the Company to "Galaxy Entertainment Group Limited 銀河娛樂集團有限公司" which became effective on 26th October 2005.

## PRINCIPAL ACTIVITIES

During the year, the Company acted as an investment holding company. The principal activities of its principal subsidiaries, jointly controlled entities and associated companies prior to 22nd July 2005 were the manufacture, sale and distribution of construction materials in Hong Kong, Macau and Mainland China. Following the completion of the Acquisition on 22nd July 2005, the principal activities of the Company's principal subsidiaries also included gaming and entertainment in Macau.

The principal activities and other particulars of the principal subsidiaries, jointly controlled entities and associated companies of the Company as at 31st December 2005 are set out in note 43 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2005 are set out in the consolidated profit and loss statement on page 54 of the annual report.

No interim dividend (2004: scrip dividend with cash option of 1 cent per share) was paid during the year. The directors have resolved not to recommend any final dividend for the year ended 31st December 2005 (2004: 1 cent per share).

## SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 28 to the financial statements.

On 19th July 2005, the authorised share capital of the Company was increased from HK\$388,800,000 to HK\$688,800,000 divided into 6,888,000,000 shares of HK\$0.10 each by the creation of an additional 3,000,000,000 shares of HK\$0.10 each, which new shares rank pari passu in all respects with the then existing shares in the capital of the Company.

On 4th May 2005, 146,000,000 new shares of HK\$0.10 each were issued at a price of HK\$8.00 per share for cash to Sutimar Enterprises Limited, a wholly-owned subsidiary of K. Wah International Holdings Limited ("KWIH") and the then controlling shareholder of the Company, pursuant to a top-up placement and subscription arrangement as stipulated in the Placing Agreement and Subscription Agreement both dated 21st April 2005 (the "Placing and Subscription"). The purpose of the Placing and Subscription was to raise capital for funding the Acquisition. The issue price of HK\$8.00 represents a discount of approximately 6.4% to the closing price of HK\$8.55 per share as quoted on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 20th April 2005. The net proceeds of approximately HK\$1,136.8 million (after deducting fees and expenses) was used to fund the Acquisition completed on 22nd July 2005. Details of the Placing and Subscription were included in the announcement dated 21st April 2005 issued by the Company.

On 22nd July 2005, 1,840,519,798 new shares of HK\$0.10 each were allotted at HK\$8.00 per share to the vendors as part consideration for the Acquisition. Details of the shares issued as consideration were included in the announcement dated 19th July 2005 issued by the Company.

# REPORT OF THE DIRECTORS

## SHARE CAPITAL (CONT'D)

During the year, 1,802,000 new shares, 2,216,000 new shares and 3,566,000 new shares were issued at the prices of HK\$0.5333, HK\$0.5216 and HK\$0.514 per share respectively pursuant to share option schemes of the Company as a result of the exercise of share options by option holders.

The stock short name of the Company for trading in the shares on the Stock Exchange was changed to “GALAXY ENT 銀河娛樂” with effect from 1st November 2005 following the change of name of the Company. The board lot of the Company's shares for trading on the Stock Exchange was changed to 1,000 shares with effect from 9th November 2005.

The Company has not redeemed any of its shares during the year ended 31st December 2005. Neither the Company nor any of its subsidiaries have purchased or sold any of the Company's shares during the year.

## DEBENTURES

On 22nd July 2005, Series 'A' unsecured fixed rate notes in the aggregate amount of HK\$172,434,536 which will mature on 21st August 2006 and Series 'B' unsecured fixed rate notes in the aggregate amount of HK\$2,371,805,067 which will mature (as amended) on 30th September 2008 were issued by the Company as part consideration for the Acquisition.

On 14th December 2005, notes with principal amount of US\$600,000,000, comprising US\$350,000,000 9.875% Guaranteed Senior Notes due 2012 and US\$250,000,000 Guaranteed Senior Floating Rate Notes due 2010, were issued by Galaxy Entertainment Finance Company Limited, a wholly owned subsidiary of Galaxy. These notes are guaranteed by Galaxy and listed on the Singapore Stock Exchange.

## RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in note 30 to the financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

## DIRECTORS

The directors of the Company who served during the year were Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung, Mr. Chan Kai Nang, Mr. Joseph Chee Ying Keung, Mr. William Lo Chi Chung, Ms. Paddy Tang Lui Wai Yu, Dr. Charles Cheung Wai Bun, Mr. Moses Cheng Mo Chi, Mr. James Ross Ancell and Dr. William Yip Shue Lam.

The respective names and biographical details of the directors are set out on pages 41 and 42 of the annual report.

In accordance with Article 106(A), Mr. Joseph Chee Ying Keung, Ms. Paddy Tang Lui Wai Yu and Mr. Moses Cheng Mo Chi will retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

None of the directors proposed for re-election has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation (other than statutory compensation).

Subject to the approval of shareholders of the Company at the forthcoming annual general meeting, the directors' fee for the year ended 31st December 2005 would be HK\$100,000 for the Chairman of the Board and HK\$80,000 for each other director. As regards the Audit Committee members, the chairman would receive an additional HK\$100,000 and each member would receive an additional HK\$80,000 as audit committee members' fee.

# REPORT OF THE DIRECTORS

## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed herein, no contracts of significance in relation to the Group's business, to which the Company or its subsidiaries was a party and in which a director has or had a material beneficial interest, whether directly or indirectly, subsisted on 31st December 2005 or at any time during the year.

## DIRECTORS' INTERESTS IN SECURITIES AND SHARE OPTIONS

As at 31st December 2005, the interests of each director in the shares, underlying shares and debentures of the Company, and the details of any right to subscribe for shares of the Company and of the exercise of such rights, as recorded in the register required to be kept under section 352 of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO") or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, were as follows:

### (a) Ordinary Shares (including underlying shares)

Name	Number of Shares				Total	Percentage of Issued Share Capital
	Personal Interests	Family Interests	Corporate Interests	Other Interests		
Lui Che Woo	17,187,632	2,181,518	80,693,238 <sup>(1)</sup>	1,905,118,394 <sup>(2)</sup>	2,005,180,782	60.94
Francis Lui Yiu Tung	11,498,896	—	436,753,661 <sup>(3)</sup>	1,905,118,394 <sup>(2)</sup>	2,353,370,951	71.52
Chan Kai Nang	380,000	—	—	—	380,000	0.01
Joseph Chee Ying Keung	2,720,000	—	—	—	2,720,000	0.08
William Lo Chi Chung	1,926,000	—	—	—	1,926,000	0.06
Paddy Tang Lui Wai Yu	8,939,722	—	—	1,905,118,394 <sup>(2)</sup>	1,914,058,116	58.17
Charles Cheung Wai Bun	582,533	—	—	—	582,533	0.02
Moses Cheng Mo Chi	500,000	—	—	—	500,000	0.02
James Ross Ancell	250,000	—	—	—	250,000	0.01
William Yip Shue Lam	250,000	—	—	—	250,000	0.01

### (b) Share Options

Details are set out in the SHARE OPTION SCHEME section below.

### (c) Debentures

Name	Amount of Debentures		
	Corporate Interests	Other Interests	Total Interests
	HK\$	HK\$	HK\$
Lui Che Woo	—	2,320,898,413 <sup>(4)</sup>	2,320,898,413
Francis Lui Yiu Tung	50,906,654	2,320,898,413 <sup>(4)</sup>	2,371,805,067
Paddy Tang Lui Wai Yu	—	2,320,898,413 <sup>(4)</sup>	2,320,898,413

Notes:

- (1) 80,387,837 shares and 305,401 shares in the Company were respectively held by Best Chance Investments Ltd. and Po Kay Securities & Shares Company Limited, both controlled by Dr. Lui Che Woo.
- (2) Two discretionary family trusts both established by Dr. Lui Che Woo as founder were respectively interested in 1,267,165,313 shares and 22,969,034 shares in the Company. KWIH, a substantial shareholder of the Company listed on the Stock Exchange, was interested in 614,984,047 shares in the Company held by a wholly owned subsidiary of KWIH. KWIH was controlled by one of the said discretionary family trusts.

Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu, as either direct or indirect discretionary beneficiaries of the discretionary family trusts, are deemed to be interested in those shares in the Company held by the trusts and in those shares in the Company in which KWIH was interested as aforesaid.

# REPORT OF THE DIRECTORS

## DIRECTORS' INTERESTS IN SECURITIES AND SHARE OPTIONS (CONT'D)

- (3) 111,138,039 shares in the Company were held by Recurrent Profits Limited controlled by Mr. Francis Lui Yiu Tung. 231,615,731 shares and 93,999,891 shares in the Company were respectively interested by Top Notch Opportunities Limited and Kentlake International Investments Limited for the purpose of the SFO, both of which were controlled by Mr. Francis Lui Yiu Tung.
- (4) A discretionary family trust established by Dr. Lui Che Woo as founder was interested in debentures of the Company in the amount of HK\$2,320,898,413. Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu, as either direct or indirect discretionary beneficiaries, are deemed to be interested in these debentures.

All the interests stated above represent long positions.

Save as disclosed above, as at 31st December 2005, none of the Directors of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31st December 2005, the interests of every person (not being a director or chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name	Number of Shares (Long Position)	Percentage of Issued Share Capital	Number of Shares (Short Position)	Percentage of Issued Share Capital
Brightwealth Investments Limited	325,615,622	9.90	325,615,622	9.90
City Lion Profits Corp.	1,160,449,206	35.27	—	—
Davos Investment Holdings Private Limited	325,615,622	9.90	325,615,622	9.90
Guoco Group Limited	325,615,622	9.90	325,615,622	9.90
Guoline Capital Assets Limited	325,615,622	9.90	325,615,622	9.90
Guoline Overseas Limited	325,615,622	9.90	325,615,622	9.90
HL Holdings Sdn Bhd	325,615,622	9.90	325,615,622	9.90
Hong Leong Company (Malaysia) Berhad	325,615,622	9.90	325,615,622	9.90
Hong Leong Investment Holdings Pte. Ltd.	325,615,622	9.90	325,615,622	9.90
HSBC International Trustee Limited	1,905,132,394 <sup>(Note)</sup>	57.90	—	—
Kwek Holdings Pte Ltd	325,615,622	9.90	325,615,622	9.90
Kwek Leng Kee	325,615,622	9.90	325,615,622	9.90
K. Wah International Holdings Limited	614,984,047	18.69	—	—
Pedro Ho On Chun	176,250,301	5.36	—	—
Quek Leng Chan	325,615,622	9.90	325,615,622	9.90
Top Notch Opportunities Limited	231,615,731	7.04	—	—

Note: HSBC International Trustee Limited is the trustee of the discretionary family trusts established by Dr. Lui Che Woo as founder, which are interested in 1,905,118,394 shares in the Company.

There was duplication of interest of:

- (i) 1,905,118,394 shares and debentures in the amount of HK\$2,320,898,413 in the Company between Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu. Among these shares,
- 614,984,047 shares in the Company were also interested by KWIH;
  - 1,160,449,206 shares in the Company were also interested by City Lion Profits Corp.;

# REPORT OF THE DIRECTORS

## SUBSTANTIAL SHAREHOLDERS' INTERESTS (CONT'D)

- (ii) 231,615,731 shares in the Company between Mr. Francis Lui Yiu Tung and Top Notch Opportunities Limited;
- (iii) 93,999,891 shares in the Company between Mr. Francis Lui Yiu Tung and Mr. Pedro Ho On Chun;
- (iv) 325,615,622 shares in the Company (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. The interests in (ii) and (iii) above are derivative interests in these 325,615,622 shares.

Save as disclosed above, as at 31st December 2005, the Company had not been notified by any persons who had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the SFO.

## SHARE OPTION SCHEME

The share option scheme of the Company (the "Share Option Scheme") was approved and adopted by the shareholders of the Company on 30th May 2002 (the "Adoption Date"). The Share Option Scheme was also approved by the shareholders of KWIH, the then holding company of the Company, on the Adoption Date. A summary of the Share Option Scheme is set out below:

### (1) Purpose

To attract and retain the best quality personnel for the development of the Company's businesses; to provide additional incentives to employees, consultants, agents, representatives, advisers, suppliers of goods or services, customers, contractors, business allies and joint venture partners; and to promote the long term financial success of the Company by aligning the interests of option holders to shareholders.

### (2) Participants

- (i) any employee of the Company or any affiliate and any senior executive or director of the Company or any affiliate; or
- (ii) any consultant, agent, representative or adviser of the Company or any affiliate; or
- (iii) any person who provides goods or services to the Company or any affiliate; or
- (iv) any customer or contractor of the Company or any affiliate; or
- (v) any business ally or joint venture partner of the Company or any affiliate; or
- (vi) any trustee of any trust established for the benefit of employees; or
- (vii) in relation to any of the above qualifying grantee who is an individual, a trust solely for the benefit of the qualifying grantee or his immediate family members, and companies controlled solely by the qualifying grantee or his immediate family members.

"Affiliate" means any company which is (a) a holding company of the Company; or (b) a subsidiary of a holding company of the Company; or (c) a subsidiary of the Company; or (d) a controlling shareholder of the Company; or (e) a company controlled by a controlling shareholder of the Company; or (f) a company controlled by the Company; or (g) an associated company of a holding company of the Company; or (h) an associated company of the Company.

# REPORT OF THE DIRECTORS

## SHARE OPTION SCHEME (CONT'D)

### (3) Total number of shares available for issue

Mandate Limit — Subject to the paragraph below, the total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company must not in aggregate exceed 10% of the shares in issue as at the Adoption Date, being 121,787,040 shares.

Overriding Limit — The Company may by ordinary resolution of the shareholders refresh the Mandate Limit as referred to in the above paragraph provided the Company shall issue a circular to its shareholders before such approval is sought. The overriding limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company must not exceed 30% of the shares in issue from time to time.

As at the date of the annual report, the total number of shares available for issue under the Share Option Scheme was 61,833,040 shares, which represented approximately 1.88% of the issued share capital of the Company on that date.

### (4) Maximum entitlement of each participant

The total number of shares issued and to be issued upon exercise of options (whether exercised or outstanding) in any 12-month period granted to each participant must not exceed 1% of the shares in issue.

Subject to separate approval by the shareholders in general meeting with the relevant participant and his associates (as defined in the Listing Rules) abstaining from voting provided the Company shall issue a circular to shareholders before such approval is sought, the Company may grant options to a participant which would exceed this limit.

### (5) Option period

The period within which the shares must be taken up under an option shall be determined by the Board in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant option.

### (6) Minimum period for which an option must be held before it can vest

The minimum period, if any, for which an option must be held before it can vest shall be determined by the Board in its absolute discretion. The Share Option Scheme itself does not specify any minimum holding period.

### (7) Payment on acceptance of the option

HK\$1.00 is payable by the grantee to the Company on acceptance of the option offer. An offer must be accepted within 14 days from the date of grant (or such longer period as the Board may specify in writing).

### (8) Basis of determining the subscription price

The subscription price shall be determined by the Board in its absolute discretion at the time of the grant but shall not be less than the highest of:

- (i) the closing price of the shares on the date of grant;
- (ii) the average closing prices of the shares for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of a share.

### (9) The remaining life of the Share Option Scheme

The life of the Share Option Scheme is 10 years commencing on the Adoption Date and will expire on 29th May 2012.

# REPORT OF THE DIRECTORS

## SHARE OPTION SCHEME (CONT'D)

As at 31st December 2005, the particulars of the options held by each of the directors of the Company, the employees of the Company in aggregate and other participants granted under the Share Option Scheme or under any other share option schemes of the Company, were as follows:

Name	Date of grant	Number of Options				At 31st December 2005	Exercise price (HK\$)	Exercise period
		At 1st January 2005	Granted during the year	Exercised during the year	Lapsed during the year			
Lui Che Woo	20th May 1998	1,500,000	—	—	—	1,500,000	0.5333	20th May 1999–19th May 2008
	30th Dec 1999	1,800,000	—	—	—	1,800,000	0.5216	30th Dec 2000–29th Dec 2009
	28th Feb 2003	2,000,000	—	—	—	2,000,000	0.5140	1st Mar 2004–28th Feb 2013
	21st Oct 2005	—	2,700,000	—	—	2,700,000	4.5900	22nd Oct 2005–21st Oct 2011
	21st Oct 2005	—	590,000	—	—	590,000	4.5900	22nd Oct 2006–21st Oct 2011
Francis Lui Yiu Tung	20th May 1998	1,000,000	—	—	—	1,000,000	0.5333	20th May 1999–19th May 2008
	30th Dec 1999	1,600,000	—	—	—	1,600,000	0.5216	30th Dec 2000–29th Dec 2009
	28th Feb 2003	1,870,000	—	—	—	1,870,000	0.5140	1st Mar 2004–28th Feb 2013
	21st Oct 2005	—	6,000,000	—	—	6,000,000	4.5900	22nd Oct 2005–21st Oct 2011
	21st Oct 2005	—	580,000	—	—	580,000	4.5900	22nd Oct 2006–21st Oct 2011
Chan Kai Nang	28th Feb 2003	110,000	—	—	—	110,000	0.5140	1st Mar 2004–28th Feb 2013
	21st Oct 2005	—	270,000	—	—	270,000	4.5900	22nd Oct 2006–21st Oct 2011
Joseph Chee Ying Keung	28th Feb 2003	1,000,000	—	1,000,000 <sup>(a)</sup>	—	—	0.5140	1st Mar 2004–28th Feb 2013
	21st Oct 2005	—	270,000	—	—	270,000	4.5900	22nd Oct 2006–21st Oct 2011
William Lo Chi Chung	21st Oct 2005	—	1,500,000	—	—	1,500,000	4.5900	22nd Oct 2005–21st Oct 2011
	21st Oct 2005	—	230,000	—	—	230,000	4.5900	22nd Oct 2006–21st Oct 2011
Paddy Tang Lui Wai Yu	20th May 1998	600,000	—	600,000 <sup>(a)</sup>	—	—	0.5333	20th May 1999–19th May 2008
	30th Dec 1999	1,070,000	—	1,070,000 <sup>(a)</sup>	—	—	0.5216	30th Dec 2000–29th Dec 2009
	28th Feb 2003	1,270,000	—	1,270,000 <sup>(b)</sup>	—	—	0.5140	1st Mar 2004–28th Feb 2013
	21st Oct 2005	—	3,000,000	—	—	3,000,000	4.5900	22nd Oct 2005–21st Oct 2011
	21st Oct 2005	—	400,000	—	—	400,000	4.5900	22nd Oct 2006–21st Oct 2011
Charles Cheung Wai Bun	28th Feb 2003	300,000	—	300,000 <sup>(c)</sup>	—	—	0.5140	1st Mar 2004–28th Feb 2013
	21st Oct 2005	—	250,000	—	—	250,000	4.5900	22nd Oct 2006–21st Oct 2011
Moses Cheng Mo Chi	28th Feb 2003	300,000	—	—	—	300,000	0.5140	1st Mar 2004–28th Feb 2013
	21st Oct 2005	—	200,000	—	—	200,000	4.5900	22nd Oct 2006–21st Oct 2011
James Ross Ancell	21st Oct 2005	—	250,000	—	—	250,000	4.5900	22nd Oct 2006–21st Oct 2011
William Yip Shue Lam	21st Oct 2005	—	250,000	—	—	250,000	4.5900	22nd Oct 2006–21st Oct 2011
Employees	20th May 1998	1,602,000	—	1,202,000 <sup>(d)</sup>	—	400,000	0.5333	20th May 1999–19th May 2008
	30th Dec 1999	1,374,000	—	1,146,000 <sup>(e)</sup>	—	228,000	0.5216	30th Dec 2000–29th Dec 2009
	28th Feb 2003	1,276,000	—	996,000 <sup>(f)</sup>	—	280,000	0.5140	1st Mar 2004–28th Feb 2013
	21st Oct 2005	—	15,900,000	—	—	15,900,000	4.5900	22nd Oct 2005–21st Oct 2011
	21st Oct 2005	—	5,062,000	—	104,000	4,958,000	4.5900	22nd Oct 2006–21st Oct 2011
Others	20th May 1998	300,000	—	—	—	300,000	0.5333	20th May 1999–19th May 2008
	30th Dec 1999	1,070,000	—	—	—	1,070,000	0.5216	30th Dec 2000–29th Dec 2009
	28th Feb 2003	300,000	—	—	—	300,000	0.5140	1st Mar 2004–28th Feb 2013
	21st Oct 2005	—	3,500,000	—	—	3,500,000	4.5900	22nd Oct 2005–21st Oct 2011
	21st Oct 2005	—	302,000	—	—	302,000	4.5900	22nd Oct 2006–21st Oct 2011

# REPORT OF THE DIRECTORS

## SHARE OPTION SCHEME (CONT'D)

Notes:

- a. The options were exercised on the same date and the closing price of the Company's shares immediately before the date on which the options were exercised during the year was HK\$4.55.
- b. The closing price of the Company's shares immediately before the date on which the options were exercised during the year was HK\$5.20.
- c. The closing price of the Company's shares immediately before the date on which the options were exercised during the year was HK\$5.40.
- d. The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised during the year was HK\$5.92.
- e. The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised during the year was HK\$6.99.
- f. The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised during the year was HK\$6.11.

Except for the 32,600,000 options granted on 21st October 2005 exercisable within the period from 22nd October 2005 to 21st October 2011 at an exercise price of HK\$4.59 per share, all options referred to above are subject to a one-year vesting period.

No options were cancelled during the year.

The consideration paid by each grantee for each grant of options is HK\$1.00.

The fair value of the options granted during the year with no vesting period and one-year vesting period are estimated at HK\$1.03 and HK\$0.94 per option respectively, based on the Black-Scholes valuation model. The significant inputs into the model were share price of HK\$4.425 at the date of grant, exercise price of HK\$4.59, standard deviation of expected share price returns of 35%, expected life of options of 2.5 to 3 years, expected dividend paid out rate of 2% and annual risk-free interest rate of 4.075%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices of comparable companies over the past 260 trading days. Changes in the subjective input assumptions could materially affect the fair value estimate.

The closing price of the Company's shares immediately before the date on which the share options were granted during the year was HK\$4.40.

Except for the Share Option Scheme, at no time during the year was the Company, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## CONNECTED TRANSACTION

On 14th March 2005, Canton Treasure entered into an acquisition agreement (as amended by supplemental agreements dated 1st April 2005 and 31st May 2005 respectively) with, inter alia, City Lion Profits Corp. and Recurrent Profits Limited by which Canton Treasure conditionally agreed to acquire the Galaxy Shares at an aggregate price of HK\$18,405,198,023. The acquisition was completed on 22nd July 2005 and the purchase price was satisfied as to about 80% by the issue of 1,840,519,798 new shares at HK\$8.00 per share and as to about 20% by the issue of HK\$2,544,239,603 principal amount of unsecured fixed rate notes and the payment in cash of HK\$1,136,800,000. The Acquisition constituted a connected transaction for the Company by virtue of the connected relationship in that:

- (1) City Lion Profits Corp. is wholly owned by a discretionary trust established by Dr. Lui Che Woo as founder with Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu as either direct or indirect discretionary beneficiaries; and
- (2) Recurrent Profits Limited is wholly owned by Mr. Francis Lui Yiu Tung.

The Acquisition was duly approved by independent shareholders of the Company at the extraordinary general meeting convened on 19th July 2005.



# REPORT OF THE DIRECTORS

## CONTINUING CONNECTED TRANSACTIONS

1. On 2nd June 2005, each of the Company's three subsidiaries, namely Shanghai Jiajian Concrete Co. Ltd. (上海嘉建混凝土有限公司) (60% owned), Shanghai Jia Shen Concrete Co. Ltd. (上海嘉申混凝土有限公司) (100% owned) and Shanghai Xin Cai Concrete Co. Ltd. (上海信財混凝土有限公司) (99% owned) respectively entered into a tenancy agreement (collectively the "Tenancy Agreements") as tenant (collectively the "Tenants") with Jia Hui Da Real Estate Development Co., Ltd. Shanghai (上海嘉匯達房地產開發經營有限公司) as landlord (the "Landlord"). Pursuant to the Tenancy Agreements, the Tenants agreed to lease the properties located at Units 1802-1804, Shanghai K. Wah Centre, No. 1010, Huaihai Zhong Road, Xuhui District, Shanghai, the PRC for a term of three years from 1st June 2005 to 31st May 2008 at an aggregate monthly rental of US\$21,528 (equivalent to approximately HK\$167,920) for office uses. The Landlord is an indirect non wholly-owned subsidiary of KWIH, a substantial shareholder of the Company, and accordingly the Tenancy Agreements constituted continuing connected transactions for the Company. Details of the Tenancy Agreements were included in the announcement dated 23rd August 2005 issued by the Company.

Each of the independent non-executive directors of the Company has reviewed the transactions under the Tenancy Agreements and confirms that the transactions have been entered into:

- (1) in the ordinary and usual course of business of the Company;
- (2) on normal commercial terms; and
- (3) in accordance with the Tenancy Agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Auditors of the Company, PricewaterhouseCoopers, have also confirmed in writing to the Board of Directors of the Company that the transactions:

- (1) have received the approval of the Company's Board of Directors;
- (2) have been entered into in accordance with the Tenancy Agreements governing the transactions; and
- (3) have not exceeded the aggregate annual rental (i.e. the annual cap) of HK\$1,175,430 for the year ended 31st December 2005.

2. On 22nd July 2002, a wholly owned subsidiary of the Company, Brighten Lion Limited, entered into a loan agreement (the "Loan Agreement") for the granting of a guaranteed unsecured revolving loan facility in the maximum amount of HK\$330 million (the "Facility") to Great Place Developments Limited (the "Borrower") and KWIH provided a guarantee and indemnity in respect of the obligations of the Borrower under the Facility. The Facility bears interest at 2.38% per annum over three-month HIBOR with a final maturity date of 12th September 2007.

The Borrower is a wholly owned subsidiary of KWIH, and the Facility is guaranteed by KWIH. The Facility constituted a continuing connected transaction for the Company. Details of the transactions are included in the joint announcement of the Company and KWIH dated 22nd July 2002 and the circular of the Company dated 5th August 2002.

No annual cap is involved in the Facility and no amount has been drawn on the Facility by the Borrower during the year 2005.

Each of the independent non-executive directors of the Company has reviewed the transaction under the Facility and confirms that the transaction has been entered into:

- (1) on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties, and
- (2) in accordance with the relevant agreement governing them, i.e. the Loan Agreement on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

# REPORT OF THE DIRECTORS

## CONTINUING CONNECTED TRANSACTIONS (CONT'D)

The Auditors of the Company, PricewaterhouseCoopers, have also confirmed in writing to the Board of Directors of the Company that:

- (1) the transactions have received the respective approvals of the Board of Directors and independent shareholders of the Company; and
- (2) no loan was outstanding under the Loan Agreement during the year ended 31st December 2005 and there was no interest received and receivable during the year 2005.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited accounts and adjusted as appropriate, is shown on pages 39 and 40 of the annual report.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December 2005, the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover; and the aggregate amount of purchases (not including the purchases of items which are of a capital nature) attributable to the Group's five largest suppliers represented less than 30% of the Group's total purchases.

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had any interest in the five largest customers or suppliers (not including of a capital nature).

## MANAGEMENT CONTRACTS

No substantial contracts concerning the management and administration of the Company were entered into or existed during the year.

## DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$3,194,000 (2004: nil).

## AUDITORS

The financial statements of the Company for the year under review have been audited by PricewaterhouseCoopers, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board

**Francis Lui Yiu Tung**

Deputy Chairman

Hong Kong, 11th April 2006