

# 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 for the year ended 31st December 2006.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal subsidiaries, jointly controlled entities and associated companies of the Company are primarily engaged in gaming and entertainment in Macau and the manufacture, sale and distribution of construction materials in Hong Kong, Macau and Mainland China, and their principal activities and other particulars are set out in note 42 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2006 are set out in the consolidated profit and loss statement on page 54 of this annual report.

No interim dividend (2005: nil) was paid during the year. The Directors have resolved not to recommend any final dividend for the year ended 31st December 2006 (2005: nil).

## SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 27 to the financial statements.

During the year, 300,000 new shares, 1,070,000 new shares, 300,000 new shares and 3,868,000 new shares were issued at the prices of HK\$0.5333, HK\$0.5216, HK\$0.514 and HK\$4.59 per share respectively pursuant to share option schemes of the Company as a result of the exercise of share options by option holders.

## DEBT SECURITIES

Details of the fixed rate notes in the aggregate principal amount of HK\$2,371,805,067 issued by the Company are set out in note 30 to the financial statements.

Details of the guaranteed senior fixed rate and floating rate notes in the aggregate principal amount of US\$600,000,000 issued by Galaxy Entertainment Finance Company Limited, a subsidiary of the Company, which are listed on the Singapore Stock Exchange are set out in note 30 to the financial statements.

On 14th December 2006, the Company issued an aggregate principal amount of US\$240,000,000 zero coupon convertible notes due 2011 (the "Notes"), details of which are set out in note 30 to the financial statements. Further details of the Notes, including the estimated amount and use of proceeds, were set out in the Company's announcement dated 6th December 2006.

# REPORT OF THE DIRECTORS

## DEALINGS IN LISTED SECURITIES

The Company has not redeemed any of its shares or listed debt securities during the year ended 31st December 2006. Neither the Company nor any of its subsidiaries have purchased or sold any of the Company's shares or listed debt securities during the year.

## RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in note 29 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. Mr. Anthony Thomas Christopher Carter was appointed a Director of the Company with effect from 18th April 2007. Mr. William Lo Chi Chung resigned as a Director of the Company with effect from 1st May 2007. Their biographical details are set out on pages 39 to 41 of this annual report.

In accordance with Article 106(A), Mr. Francis Lui Yiu Tung and Mr. James Ross Ancell shall retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. In accordance with Article 97, Mr. Anthony Thomas Christopher Carter shall hold office until the forthcoming annual general meeting and, being eligible, offers himself 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 at the forthcoming annual general meeting, the following directors' fees in respect of the year ended 31st December 2006 will be payable to the Directors:

	<b>Chairman</b> (HK\$)	<b>Member</b> (HK\$)
The Board	100,000	80,000
Audit Committee	100,000	80,000
Remuneration Committee	50,000	40,000

## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in this Report of the Directors, 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 2006 or at any time during the year.

# REPORT OF THE DIRECTORS

## DIRECTORS' INTERESTS IN SECURITIES AND SHARE OPTIONS

At 31st December 2006, 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Rules Governing the Listing of Securities on the Stock Exchange (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	60.83
Francis Lui Yiu Tung	11,498,896	–	436,753,661 <sup>(3)</sup>	1,905,118,394 <sup>(2)</sup>	2,353,370,951	71.40
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	58.07
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 (HK\$)	Other Interests (HK\$)	Total Interests (HK\$)
Lui Che Woo	–	2,320,898,413 <sup>(4)</sup>	2,320,898,413
Francis Lui Yiu Tung	50,906,654 <sup>(3)</sup>	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. K. Wah International Holdings Limited ("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 have interest in those shares in the Company interested by the trusts and in those shares in the Company in which KWIH was interested as aforesaid.

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- (3) 111,138,039 shares and debentures of the Company in the amount of HK\$50,906,654 were held by Recurrent Profits Limited controlled by Mr. Francis Lui Yiu Tung. 231,615,731 underlying shares of the Company were interested by Top Notch Opportunities Limited ("Top Notch"). 60,000,000 shares and 33,999,891 underlying shares in the Company were interested by Kentlake International Investments Limited ("Kentlake"). Both Top Notch and Kentlake were controlled by Mr. Francis Lui Yiu Tung.
- (4) A discretionary family trust established by Dr. Lui Che Woo as founder was interested in debentures of the Company in the amount of HK\$2,320,898,413. Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu, as either direct or indirect beneficiaries, are deemed to have interest in these debentures.

All the interests stated above represent long positions.

Save as disclosed above, as at 31st December 2006, 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

At 31st December 2006, the interests or short positions of every person (not being a Director or chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name	Number of Shares (Long Position)	Percentage of Issued Share Capital	Number of Shares (Short Position)	Percentage of Issued Share Capital
Brightwealth Investments Limited	265,615,622	8.06	265,615,622	8.06
City Lion Profits Corp.	1,160,449,206	35.21	–	–
Davos Investment Holdings Private Limited	265,615,622	8.06	265,615,622	8.06
Guoco Group Limited	265,615,622	8.06	265,615,622	8.06
Guoline Capital Assets Limited	265,615,622	8.06	265,615,622	8.06
Guoline Overseas Limited	265,615,622	8.06	265,615,622	8.06
HL Holdings Sdn Bhd	265,615,622	8.06	265,615,622	8.06
Hong Leong Company (Malaysia) Berhad	265,615,622	8.06	265,615,622	8.06
Hong Leong Investment Holdings Pte. Ltd.	265,615,622	8.06	265,615,622	8.06
HSBC International Trustee Limited	1,905,132,394 <sup>(Note)</sup>	57.80	–	–
Kwek Holdings Pte Ltd	265,615,622	8.06	265,615,622	8.06
Kwek Leng Kee	265,615,622	8.06	265,615,622	8.06
K. Wah International Holdings Limited	614,984,047	18.66	–	–
Pedro Ho On Chun	176,250,301	5.35	–	–
Quek Leng Chan	265,615,622	8.06	265,615,622	8.06
Top Notch Opportunities Limited	231,615,731	7.03	–	–

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

There was duplication of interests of:

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

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- (ii) 231,615,731 underlying shares in the Company between Mr. Francis Lui Yiu Tung and Top Notch Opportunities Limited;
- (iii) 60,000,000 shares and 33,999,891 underlying shares in the Company between Mr. Francis Lui Yiu Tung and Mr. Pedro Ho On Chun;
- (iv) 265,615,622 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.

Save as disclosed above, as at 31st December 2006, the Company had not been notified by any persons who had interests or short positions in the shares or underlying shares of the Company which are required to be recorded in the register required to be kept under section 336 of the SFO.

## SHARE OPTION SCHEME

The share option scheme of the Company (the “Share Option Scheme”) was adopted by the shareholders of the Company on 30th May 2002 and approved by the shareholders of KWIH, the then holding company of the Company, on the same 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.

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## (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 329,464,936 shares, being 10% of the shares in issue as at 29th June 2006, the date of passing of an ordinary resolution of the shareholders for refreshment of the Mandate Limit.

Overriding Limit – The Company may by ordinary resolution of the shareholders refresh the Mandate Limit as referred to in the above paragraph provided that 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 this annual report, the total number of shares available for issue under the Share Option Scheme was 329,464,936 shares, which represented approximately 9.99% 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.

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

The life of the Share Option Scheme is 10 years commencing on its adoption date, being 30th May 2002 and will expire on 29th May 2012.

The particulars of the movements in 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 during the year ended 31st December 2006 were as follows:

Name	Date of grant	Number of Options			Held at 31st December 2006	Exercise price (HK\$)	Exercise period
		Held at 1st January 2006	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	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	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	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 (in aggregate)	20th May 1998	400,000	–	–	400,000	0.5333	20th May 1999 – 19th May 2008
	30th Dec 1999	228,000	–	–	228,000	0.5216	30th Dec 2000 – 29th Dec 2009
	28th Feb 2003	280,000	–	–	280,000	0.5140	1st Mar 2004 – 28th Feb 2013
	21st Oct 2005	15,900,000	2,750,000 <sup>(a)</sup>	400,000	12,750,000	4.5900	22nd Oct 2005 – 21st Oct 2011
	21st Oct 2005	#5,260,000	1,118,000 <sup>(b)</sup>	418,000	3,724,000	4.5900	22nd Oct 2006 – 21st Oct 2011
Others	20th May 1998	300,000	300,000 <sup>(c)</sup>	–	–	0.5333	20th May 1999 – 19th May 2008
	30th Dec 1999	1,070,000	1,070,000 <sup>(d)</sup>	–	–	0.5216	30th Dec 2000 – 29th Dec 2009
	28th Feb 2003	300,000	300,000 <sup>(d)</sup>	–	–	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

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- # On reclassification of a total number of 302,000 share options from “Others” to “Employees” after the option holder became an employee of a subsidiary of the Company.

Notes:

- a. 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\$6.82.
- b. 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\$7.67.
- c. The weighted average closing price of the Company's shares immediately before the date on which the options were exercised during the year was HK\$6.40.
- d. The weighted average closing price of the Company's shares immediately before the date on which the options were exercised during the year was HK\$6.60.

Except for the 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 granted or cancelled during the year.

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

Except for the Share Option Scheme, at no time during the year was the Company or its subsidiaries 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 3rd October 2006, a contract (the “Rehabilitation Contract”) for the rehabilitation of Lam Tei Quarry at Castle Peak Road, Lam Tei, New Territories, Hong Kong was entered into between the Government of Hong Kong and AHK Aggregates Limited (the “Contractor”), which is held as to 36.5% by the Group and as to 63.5% by Asia Stone Company Limited (“Asia Stone”). The Group's proportionate share of the total capital commitment in the Contractor was HK\$72,562,000. The formation of the Contractor to tender for the Rehabilitation Contract constituted a connected transaction for the Company by reason of the fact that Asia Stone is a subsidiary of a substantial shareholder in a non wholly owned subsidiary of the Company. Details of the transaction were set out in the Company's announcement dated 3rd October 2006.



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## CONTINUING CONNECTED TRANSACTIONS

1. 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) continued to lease from 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), which is an indirect non wholly owned subsidiary of KWIH, the office units located at Units 1802-1804, Shanghai K. Wah Centre, No. 1010, Huaihai Zhong Road, Xuhui District, Shanghai, the PRC at an aggregate monthly rental of US\$21,528 (equivalent to approximately HK\$167,920) pursuant to the Tenancy Agreements (collectively the "Tenancy Agreements") entered into on 2nd June 2005. The leases are for a 3-year term from 1st June 2005 to 31st May 2008. 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.

In accordance with paragraph 14A.38 of the Listing Rules, the Board of Directors engaged the auditors of the Company to perform certain agreed-upon procedures on the above continuing connected transactions in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have reported to the Board of Directors of the Company that:

- (1) the transactions have received the approval of the Company's Board of Directors;
- (2) the transactions have been entered into in accordance with the Tenancy Agreements governing the transactions; and
- (3) the aggregate annual rental under the Tenancy Agreements amounted to HK\$2,015,020 for the year ended 31st December 2006 and is within the corresponding annual cap.

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2. The guaranteed unsecured revolving loan facility in the maximum amount of HK\$330 million (the "Facility") granted by a wholly owned subsidiary of the Company, namely Brighten Lion Limited to Great Place Developments Limited, a wholly owned subsidiary of KWIH, pursuant to a loan agreement (the "Loan Agreement") entered into on 22nd July 2002 was subsisting as at year-end. The Facility is guaranteed by KWIH and bears interest at 2.38% per annum over three-month HIBOR with a final maturity date of 12th September 2007. No annual cap is involved in the Facility. Details of the Facility were included in the joint announcement of the Company and KWIH dated 22nd July 2002 and the circular of the Company dated 5th August 2002.

A loan in the principal amount of HK\$120,000,000 had been drawn and fully paid during the year. As at 31st December 2006, no amount was outstanding.

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.

In accordance with paragraph 14A.38 of the Listing Rules, the Board of Directors engaged the auditors of the Company to perform certain agreed-upon procedures on the above continuing connected transactions in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have reported 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) the Facility was granted in accordance with the terms of the Loan Agreement and the interest received for the year ended 31st December 2006 is calculated in accordance with the Loan Agreement.

## 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 consolidated financial statements and adjusted as appropriate, is shown on page 38 of this annual report.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December 2006, 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).

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## 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\$13,349,000 (2005: HK\$3,194,000).

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company at the date of this annual report, there was a sufficient public float of the Company as required under the Listing Rules.

## AUDITORS

The financial statements of the Company for the year ended 31st December 2006 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

**Dr. Lui Che Woo**

*Chairman*

Hong Kong, 18th April 2007