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**If you are in doubt** as to any aspect of this circular or as to the actions to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Galaxy Entertainment Group Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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## **GALAXY ENTERTAINMENT GROUP LIMITED**

**銀河娛樂集團有限公司**

*(incorporated in Hong Kong with limited liability)*

**(Stock Code: 27)**

### **CONNECTED TRANSACTIONS**

### **FORMATION OF A STRATEGIC JOINT VENTURE FOR QUARRYING BUSINESS IN HUIDONG, MAINLAND CHINA**

**Independent Financial Adviser**



**Mitsubishi UFJ Securities**

Mitsubishi UFJ Securities (HK) Capital, Limited

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## DEFINITIONS

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

“%”	Percent;
“Accounts”	the audited accounts of the CJV for the 12 months ended 31 December 2007 and certain management accounts of the Boom Victory Group;
“Adjacent Land”	the industrial land located at 稔山鎮牛牯墩村石下排地段 (Shi-Xia-Pai Section of Niu-Gu-Dun Village of Ren-Shan Town) with an area of approximately 43,791 m <sup>2</sup> to the northeast of the Forest Land, the use of which was granted to the CJV by the Government of Huidong County (惠東縣人民政府);
“Alliance”	Alliance Construction Materials Limited, a company incorporated in Hong Kong;
“Board”	the Board of Directors of the Company;
“Boom Victory”	Boom Victory Investments Limited, a company incorporated in the British Virgin Islands;
“Boom Victory Group”	Boom Victory and its subsidiaries;
“CJV”	惠東嘉華材料有限公司 (K. Wah Materials (Huidong) Limited), a sino-foreign co-operative joint venture, the two shareholders of which are K. Wah Materials and Development (Huidong) Company Limited and 廣東省惠東稔山企業集團公司 (Guangdong Huidong Renshan Enterprise Group Company) and is licensed to quarry mine and extract Rock at the Site;
“Company”	Galaxy Entertainment Group Limited, a company incorporated with limited liability in Hong Kong, the shares of which are listed on the Main Board of the Stock Exchange;
“Completion”	completion of the Disposal by the parties pursuant to the terms of the SPA;
“Directors”	the directors of the Company;
“Disposal”	the proposed disposal by Spring High of the Sale Shares and the Shareholder’s Loan to Pioneer;
“Dr. Lui”	Dr. Lui Che Woo, the Chairman and an executive Director of the Company;

## DEFINITIONS

“Forest Land”	the piece of forest land located at 石下排山 (Shi-Xia-Pai Hill) with an area of 1,177 mu (approximately 764,658.5 m <sup>2</sup> ) leased by 惠東縣稔山鎮牛牯墩村民委員會 (the Committee of Niu-Gu-Dun Village of Ren-Shan Town of Huidong County) and acknowledged by 惠東縣稔山鎮人民政府 (the Government of Ren-Shan Town of Huidong County) to the CJV;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong;
“HKGAAP”	the generally accepted accounting principles in Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of The People’s Republic of China;
“Independent Board Committee”	an independent committee of the Board, comprising of Mr. James Ross Ancell, Dr. William Yip Shue Lam and Dr. Patrick Wong Lung Tak, established to advise Independent Shareholders on the Transactions;
“Independent Shareholders”	shareholders of the Company other than those required to abstain from voting if the Company were to convene a general meeting to approve the Transactions;
“Independent Third Party”	an independent third party not connected with the Company, any director, chief executive or substantial shareholder of the Company or any of its subsidiaries or their respective associates as defined in the Listing Rules;
“K. Wah Construction”	K. Wah Construction Materials (Hong Kong) Limited, a company incorporated in Hong Kong and an indirect wholly owned subsidiary of the Company;
“K. Wah Huidong Branch”	惠東嘉華材料有限公司大亞灣分公司, a branch company of the CJV;
“Latest Practicable Date”	6 March 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;

## DEFINITIONS

“Mining Licence”	the mining licence (採礦許可證) with licence no. 4400000210019 issued by the Guangdong Provincial Department of Land and Resources (廣東省國土資源廳) to the CJV dated 22 April 2002;
“MUHKC”	Mitsubishi UFJ Securities (HK) Capital, Limited, a registered institution for type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as set out in Schedule 5 to the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Transactions;
“Pioneer”	Pioneer Quarries (Hong Kong) Limited, a company incorporated in Hong Kong and a substantial shareholder of a subsidiary of the Company;
“PRC”	The People’s Republic of China;
“Quarried Products”	the Rock quarried from and/or processed at the Site and/or the Adjacent Land and any other rock imported to and processed at the Site and/or the Adjacent Land;
“Rock”	the rock that will be extracted, processed and removed from the Site;
“RMB”	Renminbi, the lawful currency of the PRC;
“Sale Shares”	all those 50 (fully paid-up) ordinary shares, representing 50% interest, of and in the issued share capital of Boom Victory, which are the subject of the Disposal;
“SFO”	the Securities and Futures Ordinance of Hong Kong;
“Shareholders’ Agreement”	the shareholders’ agreement dated 18 February 2009 between Spring High, Pioneer, Boom Victory, K. Wah Construction and Alliance setting out the terms of the joint venture in Boom Victory;
“Shareholder’s Loan”	the amount of HK\$4,976,442 (being 50% of the sum owing by Boom Victory to Spring High), which is to be assigned on Completion by Spring High to Pioneer pursuant to the terms of the SPA;
“Shares”	shares of HK\$0.10 each in the capital of the Company;
“Site”	the quarry site within the Forest Land prescribed by the Mining Licence;

## DEFINITIONS

“Spring High”	Spring High Limited, a company incorporated in the British Virgin Islands and an indirect wholly owned subsidiary of the Company;
“SPA”	the agreement for sale and purchase of the Sale Shares dated 18 February 2009 between Spring High, Pioneer, K. Wah Construction and Alliance under which Spring High has agreed to sell the Sale Shares and the Shareholder’s Loan to Pioneer;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“Transactions”	the SPA, the Shareholders’ Agreement and the transactions contemplated thereunder.



**GALAXY ENTERTAINMENT GROUP LIMITED**

**銀河娛樂集團有限公司**

*(incorporated in Hong Kong with limited liability)*

**(Stock Code: 27)**

*Executive Directors:*

Dr. Lui Che Woo, *GBS, MBE, JP, LLD, DSSc, DBA (Chairman)*  
Mr. Francis Lui Yiu Tung *(Deputy Chairman)*  
Mr. Joseph Chee Ying Keung  
Ms. Paddy Tang Lui Wai Yu, *JP*

*Non-Executive Directors:*

Dr. Moses Cheng Mo Chi, *GBS, OBE, JP*  
Mr. Anthony Thomas Christopher Carter  
Dr. Martin Clarke  
Mr. Guido Paolo Gamucci

*Independent Non-Executive Directors:*

Mr. James Ross Ancell  
Dr. William Yip Shue Lam, *LLD*  
Dr. Patrick Wong Lung Tak, *JP*

*Registered Office:*

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

10 March 2009

*To the Shareholders*

Dear Sir or Madam,

**CONNECTED TRANSACTIONS**

**FORMATION OF A STRATEGIC JOINT VENTURE FOR  
QUARRYING BUSINESS IN HUIDONG, MAINLAND CHINA**

**INTRODUCTION**

On 18 February 2009, Spring High and K. Wah Construction (both wholly owned subsidiaries of the Company) entered into the SPA with Pioneer and Alliance under which Spring High has agreed to sell the Sale Shares and the Shareholder's Loan to Pioneer for a total consideration of HK\$47,084,895. The Sale Shares represent 50% of the issued share capital of Boom Victory, which is the sole shareholder of K. Wah Materials and Development (Huidong)

## LETTER FROM THE BOARD

Company Limited, which in turn, is one of the two shareholders of the CJV, being a sino-foreign co-operative joint venture licensed to quarry mine and extract Rock at the Site. Together with the sale of the Sale Shares, Spring High, Pioneer, Boom Victory, K. Wah Construction and Alliance have also on 18 February 2009 entered into the Shareholders' Agreement to govern the terms of the joint venture in Boom Victory. Under the Shareholders' Agreement, Pioneer is required to pay to Spring High a total sum of HK\$110,000,000 in seven annual instalments. K. Wah Construction and Alliance are the guarantors of the obligations of Spring High and Pioneer (respectively) under the SPA and the Shareholders' Agreement.

This circular contains further details of the Transactions as required under the Listing Rules.

### 1. KEY TERMS OF THE SPA

Date:	18 February 2009.
Parties:	(A) Spring High as the seller, (B) Pioneer as the purchaser, (C) K. Wah Construction as the guarantor of Spring High, and (D) Alliance as the guarantor of Pioneer.
Subject of the Disposal:	The Sale Shares together with the Shareholder's Loan in the principal amount of HK\$4,976,442.
Consideration and payment:	In aggregate HK\$47,084,895 all in cash, of which HK\$40,000,000 is for the Sale Shares, and HK\$7,084,895 is for the Shareholder's Loan.
Completion:	Immediately upon signing of the SPA when the full consideration was paid in cash. An assignment of the Shareholder's Loan was entered into between Spring High and Pioneer on Completion.
Guarantee and indemnities:	K. Wah Construction and Alliance have guaranteed the performance of obligations (including payment of sums) by Spring High and Pioneer (respectively) under the SPA. In addition, K. Wah Construction and Spring High shall jointly and severally (1) be responsible for and discharge all claims and losses which have not been reflected or provided for in the Accounts which may be suffered by the CJV in connection with (a) the liability incurred prior to Completion regarding the employment of any staff or employee of the CJV and (b) the ready-mixed concrete business or activities conducted by K. Wah Huidong Branch prior to Completion, (2) indemnify Pioneer and the Boom Victory Group against tax claims if they arise out of the business of the Boom Victory Group prior to Completion and not provided for in the Accounts and (3) be responsible for claims arising out of the liquidation of K. Wah Huidong Branch and the disposal of a certain piece of land. K. Wah Huidong Branch is a branch of the CJV and previously ran a reinforced mixed concrete business which business ceased in 2006.

## LETTER FROM THE BOARD

### 2. KEY TERMS OF THE SHAREHOLDERS' AGREEMENT

Date: 18 February 2009.

Parties: (A) Spring High, (B) Pioneer, (C) Boom Victory, (D) K. Wah Construction, and (E) Alliance.

Instalment Payment: Pioneer is required under the Shareholders' Agreement to pay to Spring High a total sum of HK\$110,000,000 in seven annual instalments between the third to ninth anniversaries of Completion.

However, if (a) Pioneer has extracted, processed and removed Rock representing 50% of the presently estimated available reserves from the Site any time before all payments have been made; or (b) Spring High purchases the Boom Victory shares of Pioneer on an event of default or deadlock under the Shareholders' Agreement; or (c) Pioneer transfers any Boom Victory shares to an entity other than Alliance's wholly owned subsidiary; or (d) any Boom Victory Group company is wound up due to the fault of Pioneer or its affiliate, then all the outstanding instalments are immediately due and payable by Pioneer to Spring High.

In the event that for any reason not attributable to the fault of Pioneer:

- (i) the Mining Licence;
- (ii) any approvals, permissions and authorizations required and necessary for the lawful operations of the business of the CJV; and/or
- (iii) the right of the CJV to export the Quarried Products to Hong Kong,

is/are revoked or terminated before the expiry of their original terms or expire and cannot be renewed within 6 months of such revocation, termination or expiry, then Pioneer is entitled to discontinue paying any remaining outstanding instalments. However, Pioneer's payment obligation shall resume if any such licence, approval, permissions, authorizations and rights are renewed within 36 months from the date of such revocation, termination or expiry.

## LETTER FROM THE BOARD

**Directors:**

For so long as Spring High and Pioneer each holds 50% of the Boom Victory shares in issue, the board of each Boom Victory Group company (other than the CJV) shall comprise of four directors of which each of Spring High and Pioneer shall be entitled to nominate, remove and substitute two directors. Spring High shall have the right to appoint one of its directors as chairman of the board of each company in the Boom Victory Group with a casting vote in case of an equality of votes at board level. The board of CJV shall comprise of five directors, of which each of Spring High and Pioneer shall each be entitled to nominate, remove and substitute two directors and the PRC partner of the CJV is entitled to nominate, remove and substitute one director.

**Capital Contribution:**

In relation to the general and additional financial requirements of the CJV:

- (a) Spring High and Pioneer shall procure that the CJV will undertake all reasonable efforts to support its operations and generate all monies it requires, including working capital, from the operations of the CJV;
- (b) if determined by the board of the CJV that any additional financing is required by the CJV, each of Spring High and Pioneer shall contribute to the CJV additional capital (including working capital) up to HK\$15,000,000, either in cash or in kind, by means of shareholder loan or by the subscription of further Boom Victory shares in proportion to their respective shareholdings in Boom Victory on such terms as determined by the board of the CJV;
- (c) if determined by the board of the CJV that it is necessary to obtain any borrowing from external sources to fund the requirements of the CJV, (i) such funding will be obtained by means of advances and credits from banks and/or financial institutions and/or similar sources and (ii) Spring High and Pioneer shall, if so required, provide guarantee(s) to the provider of the loan or other credit facility.

## LETTER FROM THE BOARD

Each of Spring High and Pioneer will also contribute to the CJV such plant and equipment as is deemed necessary by the management committee of the CJV (which comprises of four members with two nominated by each of Spring High and Pioneer) for the operations of the CJV at a value to be assessed by an independent valuer to be appointed jointly by them. The value of any contributed assets (as determined by the valuer) will be treated as a shareholder loan made by that shareholder.

To the extent that any government or financial institution, utility or other entities shall require any guarantees, bonds, indemnities or covenants from Spring High and Pioneer, they are required to give or to procure that such security be given and such security shall be given severally in proportion to their respective shareholdings in Boom Victory.

### Quarried Products:

Pioneer is entitled to an agreed amount of the rock reserves at the Site, and Spring High is entitled to all remaining rock reserves at the Site. The price at which each of Spring High and Pioneer shall take the Quarried Products from the CJV shall be agreed between the parties and shall reflect as a minimum the total costs of production of the Quarried Products.

### Distribution Policy:

The distribution policy of each of the Boom Victory Group companies shall be firstly to repay in full all outstanding shareholders' loans to the maximum extent possible and secondly to distribute cash dividend to the shareholders of Boom Victory to the maximum amount possible, in both cases, having regard to any need to maintain reserves for unexpected contingencies, future budgeted capital expenditure or working capital purposes as the board of directors of Boom Victory may consider appropriate.

### Guarantee:

K. Wah Construction and Alliance have guaranteed the performance of obligations (including payment of sums) by Spring High and Pioneer (respectively) under the Shareholders' Agreement.

The Shareholders' Agreement also contains, *inter alia*, reserved matters requiring the approval of all directors, pre-emption and deadlock provisions.

## LETTER FROM THE BOARD

### 3. INFORMATION ON BOOM VICTORY AND THE CJV

Before the Disposal, the Company had 100% interest in Boom Victory and Boom Victory was a wholly owned subsidiary of the Company. After the Disposal, Boom Victory ceases to be a subsidiary of the Company and is held as to 50% by Spring High and 50% by Pioneer.

Boom Victory is the sole shareholder of K. Wah Materials and Development (Huidong) Company Limited, which in turn, is one of the two shareholders of the CJV (惠東嘉華材料有限公司 (K. Wah Materials (Huidong) Limited)). The other shareholder of the CJV is 廣東省惠東稔山企業集團公司 (Guangdong Huidong Renshan Enterprise Group Company). The CJV is licensed to quarry mine and extract Rock at the Site. The CJV is only at preparatory stage. An access road to the quarry site has been built and fencing has been set up for the quarrying zone. The Company expects that after Completion of the Disposal, the operation team will be in full force to develop the site and set up plant and equipment in accordance with the plan of the management team of the CJV.

The consideration (including the payment of HK\$47,084,895 under the SPA and the payment of HK\$110,000,000 under the Shareholders' Agreement) was arrived at after arm's length negotiation between the parties and being a price acceptable to the parties with reference to the market comparables. The parties agreed on the payment terms of HK\$110,000,000 by way of 7 instalments (from 3rd to 9th anniversary of Completion) under the Shareholders' Agreement after considering that Alliance will need a long period of time to consume the rock reserve and a maximum payment period of 9 years after Completion of the Disposal.

The unaudited consolidated net losses before and after tax of the Boom Victory Group for the two financial years ended 31 December 2007 and 2008, prepared in accordance with HKGAAP, were HK\$2,963,000 and HK\$2,483,000 respectively.

The unaudited net asset value of Boom Victory, prepared in accordance with HKGAAP, amounted to HK\$3,481,000 as at 31 December 2008.

Upon Completion, Boom Victory ceased to be a subsidiary of the Company and its result will be equity accounted for as a jointly controlled entity of the Company. There will be a disposal gain estimated to be approximately HK\$40 million (before expenses) arising from the Disposal based on the payment of HK\$47,084,895 under the SPA less the carrying value of the investment. This is calculated based on the consideration payable for the Sale Shares under the SPA of HK\$40 million less approximately HK\$2 million (being half of the unaudited net asset value of Boom Victory as at 31 December 2008) plus the difference between the consideration paid for the Shareholder's Loan of approximately HK\$7 million and its principal amount of approximately HK\$5 million. The Company intends to apply the net proceeds for its general working capital requirements.

### 4. INFORMATION ON THE COMPANY

The Group's principal business is the development and operation of casino and gaming and gaming related facilities and related leisure and entertainment facilities in Macau. It also has businesses in the manufacture, sale and distribution of construction materials and quarrying in Hong Kong, Macau and the PRC.

## LETTER FROM THE BOARD

### 5. INFORMATION ON PIONEER AND ALLIANCE

Pioneer is a substantial shareholder holding 36.5% of the issued share capital of KWP Quarry Co. Limited, a 63.5% owned subsidiary of the Company. Pioneer is wholly owned by Alliance. Therefore Pioneer and Alliance are connected persons of the Company (at the subsidiary level). Alliance is also an indirect holding company holding (i) 63.5% of AHK Aggregates Limited, a 36.5% owned associated company of the Company and (ii) 50% of AHK Concrete Limited, a 50% owned jointly-controlled entity of the Company. Alliance is ultimately held as to 50% by HeidelbergCement AG, a public limited company incorporated in Germany. The remaining 50% of Alliance is ultimately held by Cheung Kong Infrastructure Holdings Limited, a listed company incorporated in Hong Kong. Save as disclosed in this paragraph, (i) Alliance and its ultimate beneficial owners, HeidelbergCement AG and Cheung Kong Infrastructure Holdings Limited and (ii) Pioneer are Independent Third Parties to the best knowledge, information and belief of the Directors, having made all reasonable enquiries. The principal business activities of Pioneer and Alliance are investment holding and those of their subsidiaries are quarrying and production and sale of concrete and aggregates.

### 6. REASONS FOR AND BENEFITS OF THE DISPOSAL AND THE SHAREHOLDERS' AGREEMENT

The Disposal and the Shareholders' Agreement represent an opportunity for the Group to form a strategic business alliance with Pioneer and Alliance to capitalize on the growth potential of Huidong, the PRC. The Board regards Pioneer and Alliance as preferred cooperation partners as their connections and resources are expected to be helpful for the Group's business development in the region. It is believed that the cooperation will provide synergies in respect of the parties' technology and competence, which will enhance the competitive edge and broaden the earnings base of the construction materials division of the Group.

### 7. LISTING RULES IMPLICATION

As Pioneer is a substantial shareholder of a non-wholly owned subsidiary of the Company, and Pioneer is wholly owned by Alliance, both Pioneer and Alliance are connected persons of the Company (at the subsidiary level). As a relevant percentage ratio (as defined under the Listing Rules) in respect of the total consideration under the SPA together with all sums to be paid to Spring High under the Shareholders' Agreement is more than 2.5%, the transactions contemplated under the SPA and the Shareholders' Agreement constitute connected transactions of the Company and therefore are subject to the reporting, announcement and Independent Shareholders' approval requirements pursuant to Rule 14A.32 of the Listing Rules. So far as the Company is aware having made all reasonable enquiries, no shareholder is required to abstain from voting on the Transactions. Pursuant to Rule 14A.43 of the Listing Rules, Dr. Lui holding 10,097,632 Shares, together with companies held by him (Super Focus Company Limited holding 106,716,107 Shares, Mark Liaison Limited holding 9,660,855 Shares, Premium Capital Profits Limited holding 13,308,179 Shares, Best Chance Investments Ltd. holding 80,387,837 Shares and Favor Right Investments Limited holding 22,500,000 Shares), City Lion Profits Corp. (a company held by a discretionary family trust set up by Dr. Lui holding 1,313,887,206 Shares), Mr. Lui Yiu Tung Francis (Dr. Lui's son holding 1,448,896 Shares), Recurrent Profits Limited (a company wholly owned by Mr. Lui Yiu Tung Francis holding

## LETTER FROM THE BOARD

114,504,039 Shares), Ms. Lui Wai Yu Paddy (Dr. Lui's daughter holding 5,539,722 Shares), Netfinity Assets Corporation (a company wholly owned by Mr. Lui Yiu Nam Lawrence, Dr. Lui's son and holding 161,066,521 Shares) and Sutimar Enterprises Limited (a wholly owned subsidiary of K. Wah International Holdings Limited, a company listed on the Stock Exchange and held as to 57% by Dr. Lui as at the date of the SPA and the Shareholders' Agreement and holding 162,484,047 Shares), being a closely allied group of shareholders holding approximately 50.8% of the total issued share capital of the Company have given written consent to the Transactions in lieu of a shareholders meeting being convened to approve the Transactions. The Company has applied to the Stock Exchange for a waiver of such shareholders meeting and a waiver was granted by the Stock Exchange on 18 February 2009.

### **8. GENERAL**

The Directors (including the independent non-executive Directors) consider that the SPA and the Shareholders' Agreement are on normal commercial terms and their terms (including instalment payment terms) are fair and reasonable and are in the interest of the Company and its shareholders as a whole.

Your attention is drawn to the recommendation of the Independent Board Committee and the advice of MUHKC and the other information set out in this circular and the appendix to it.

Yours faithfully  
For and on behalf of the Board of  
**GALAXY ENTERTAINMENT GROUP LIMITED**  
**Dr. Lui Che Woo**  
*Chairman*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



**GALAXY ENTERTAINMENT GROUP LIMITED**

銀河娛樂集團有限公司

*(incorporated in Hong Kong with limited liability)*

**(Stock Code: 27)**

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

10 March 2009

*To the Independent Shareholders*

Dear Sir or Madam,

**CONNECTED TRANSACTIONS**

**FORMATION OF A STRATEGIC JOINT VENTURE FOR  
QUARRYING BUSINESS IN HUIDONG, MAINLAND CHINA**

We refer to the circular dated 10 March 2009 issued by the Company, of which this letter forms a part (the "Circular").

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

We have been appointed as the members of the Independent Board Committee to consider the terms of the SPA and the Shareholders' Agreement and to advise the Independent Shareholders as to whether the terms of the SPA and the Shareholders' Agreement are fair and reasonable insofar as the Independent Shareholders are concerned.

Mitsubishi UFJ Securities (HK) Capital, Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the SPA and the Shareholders' Agreement.

## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We wish to draw your attention to the Letter from the Board (which is set out on pages 5 to 12 of the Circular) and the letter of advice from MUHKC (which is set out on pages 15 to 28 of the Circular).

Having taken into account the advice from MUHKC, we consider that the terms of the SPA and the Shareholders' Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Even though the Company has obtained a shareholders' meeting waiver from the Stock Exchange under Rule 14A.43 of the Listing Rules, we nevertheless recommend Independent Shareholders to vote in favour of resolutions to approve the Transactions, if a general meeting of the Company were to be convened to approve the Transactions.

Yours faithfully  
The Independent Board Committee

**Mr. James Ross Ancell**  
*Independent non-executive  
Director*

**Dr. William Yip Shue Lam**  
*Independent non-executive  
Director*

**Dr. Patrick Wong Lung Tak**  
*Independent non-executive  
Director*

## LETTER FROM MUHKC



Mitsubishi UFJ Securities

Mitsubishi UFJ Securities (HK) Capital, Limited

10 March 2009

*To the Independent Board Committee  
and the Independent Shareholders*

Dear Sirs,

### CONNECTED TRANSACTIONS

#### INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the Transactions, particulars of which are set out in the letter from the Board (the "Letter from the Board") of this circular to the Shareholders dated 10 March 2009 (the "Circular") and in which this letter is reproduced. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

As set out in the Letter from the Board, on 18 February 2009,

- (1) Spring High and K. Wah Construction (both wholly owned subsidiaries of the Company) entered into the SPA with Pioneer and Alliance under which Spring High has agreed to sell the Sale Shares and the Shareholder's Loan to Pioneer for a total consideration of HK\$47,084,895; and
- (2) the aforesaid four parties, together with Boom Victory, entered into the Shareholders' Agreement whereby Pioneer is required to pay to Spring High a total sum of HK\$110,000,000 in seven annual instalments.

The transactions contemplated under the SPA and the Shareholders' Agreement constitute connected transactions of the Company and therefore are subject to the reporting, announcement and independent shareholders' approval requirements pursuant to the Listing Rules.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the date of the Circular. We have also relied on our discussion with the management of the Company regarding the Group and the Transactions, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason

## LETTER FROM MUHKC

to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, Boom Victory, K. Wah Materials and Development (Huidong) Company Limited, the CJV, Pioneer, Alliance and their respective associates nor have we carried out any independent verification of the information supplied.

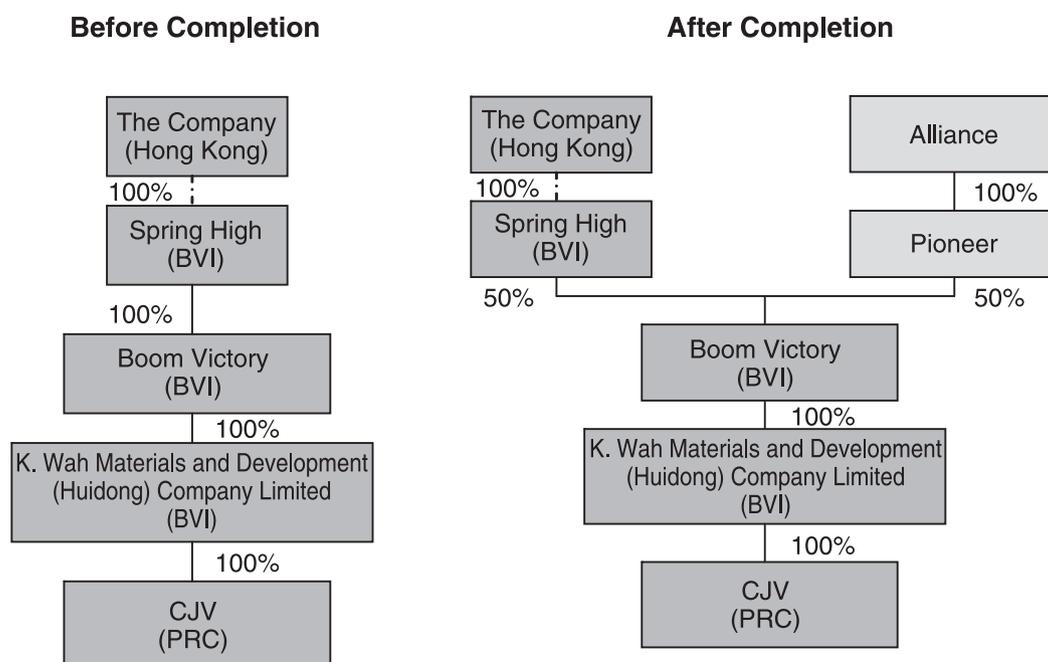
### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the terms of the Transactions, we have considered the following principal factors and reasons:

#### 1. Background of and reasons for the Transactions

##### (i) Shareholding

We summarise below the shareholding structure of Boom Victory Group before and after Completion:



## LETTER FROM MUHKC

### (ii) *Financials of Boom Victory*

As set out in the Letter from the Board, Boom Victory is the sole shareholder of K. Wah Materials and Development (Huidong) Company Limited, which in turn, is one of the two shareholders of the CJV (惠東嘉華材料有限公司 (K. Wah Materials (Huidong) Limited)). The other shareholder of the CJV is 廣東省惠東稔山企業集團公司 (Guangdong Huidong Renshan Enterprise Group Company). The CJV is licensed to quarry mine and extract Rock at the Site.

The following is a summary of the consolidated financial results/position of Boom Victory for the most recent financial year:

	<b>Year ended 31 December 2008 HK\$'000</b>
Other operating income	729
Other operating expenses	<u>(3,212)</u>
<b>Operating loss</b>	<b><u><u>(2,483)</u></u></b>
Non-current assets	14,821
Current assets	3,072
Current liabilities	<u>(14,412)</u>
<b>Net assets</b>	<b><u><u>3,481</u></u></b>

Source: Unaudited management accounts

As far as financial results are concerned, we note that Boom Victory recorded no sales turnover and was loss-making for the year ended 31 December 2008 due to pre-operating expenses. Upon our due diligence enquiry, we understand from the Company that so far no mine quarrying nor rock extraction has been carried out at the Site by the CJV, notwithstanding that the CJV was incorporated back in 2001.

As far as financial position is concerned, we note that “deferred expenditure” accounts for the majority of non-current assets of Boom Victory. Meanwhile, “amounts due to holding companies” account for the entire current liabilities of Boom Victory. We consider such phenomenon to be not untypical for company at preparatory stage. The Company expects that after Completion of the Disposal, the operation team will be in full force to develop the Site and set up plant and equipment in accordance with the plan of the management team of the CJV.

**(iii) *Reasons for entering into the Transactions***

As set out in the Letter from the Board, the Disposal and the Shareholders' Agreement represent an opportunity for the Group to form a strategic business alliance with Pioneer and Alliance to capitalize on the growth potential of Huidong, the PRC. The Board regards Pioneer and Alliance as preferred cooperation partners as their connections and resources are expected to be helpful for the Group's business development in the region. It is believed that the cooperation will provide synergies in respect of the parties' technology and competence, which will enhance the competitive edge and broaden the earning base of the construction materials division of the Group.

Upon our due diligence meeting with the Company, we understand that the estimated total rock reserves available at the Site is so sizeable that it would take the Group at least 40 years' time to exploit in full based on the Group's prevailing annual demand alone. To better utilise the abundant Rock resources available at the Site, we concur with the Company's view that the Disposal (together with the Shareholders' Agreement) is expected to attain economies of scale of the Rock extraction at the Site in terms of lowering the unit production cost by way of sharing the fixed costs and CAPEX with the cooperation partners. In essence, Pioneer and Alliance are reputable market participants in the same industry (with German and Hong Kong blue-chip background) which have their own annual demand for the Rock. Alliance is ultimately held as to 50% by HeidelbergCement AG, a public limited company incorporated in Germany. The remaining 50% of Alliance is ultimately held by Cheung Kong Infrastructure Holdings Limited, a listed company incorporated in Hong Kong

As set out in the Letter from the Board, Pioneer is holding 36.5% of the issued share capital of KWP Quarry Co. Limited (which in turn a 63.5% owned subsidiary of the Company). In this connection, it comes to our attention that the same cooperation partners happen to have joined force with the Group in the similar rock extraction business in Hong Kong. In fact, Pioneer and Alliance (via their subsidiaries) are principally engaged in quarrying and production and sale of concrete and aggregates. Upon further enquiry, we understand that the Group has been maintaining such cooperation relationship with Pioneer since year 1997, and the Group has found it satisfactory overall.

# LETTER FROM MUHKC

## 2. Key terms of the Transactions

### (i) Consideration

As set out in the Letter from the Board, the consideration (including the payment of HK\$47,084,895 under the SPA and the payment of HK\$110,000,000 under the Shareholders' Agreement) was arrived at after arm's length negotiation between the parties and being a price acceptable to the parties with reference to the market comparables.

- *Market comparables approach*

Upon our due diligence enquiry, we understand from the Company that there is no international nor domestic market pricing quotation publicly available for rock reserves of the Site. As an alternative, the Company resorts to gauge the market comparable on the basis of the actual prices transacted in the latest open market auction precedent for seven comparable rock sites of granite in Guangdong region (in September 2007), details of which are set out in the table below:

Location	The Site				Comparables				
	稔山鎮 (Ren Shan Town) 嘉華惠東石場	白花鎮 (Bai Hua Town) 樺山石場	吉隆鎮 (Ji Long Town) 石井坑石場	鐵涌鎮 (Tie Yong Town) 官田石場	平海鎮 (Ping Hai Town) 新圍石場	平海鎮碧甲 (Ping Hai Town Bi Jia) 雞公嶺石場	梁化鎮大地村 (Liang Hua Town) 水井石場	寶口鎮馬山五一村 (Bao Kou Town) 仙人草窩石場	
Quarrrable Reserve ('0,000 m <sup>3</sup> )	4,446.0	398.5	238.4	247.9	146.5	118.1	182.0	255.8	
Years of tenor	15	6	8	8	8	8	8	8	
Auctioned or Agreed price (RMB'0,000)	27,803	1,115	294	245	245	245	245	245	
Auctioned or Agreed price/ton (RMB) <sup>1</sup>	2.4	1.7	0.8	0.7	1.3	2.2	0.5	0.6	
	Note 2								
					Median = 0.8				

Source: 惠東縣石場採礦權掛牌出讓公告 and the Company

Notes:

1. Inclusive of pre-operating expenses for fixed assets deployment in each quarry site
2. = (HK\$47,084,895 under the SPA + HK\$110,000,000 under the Shareholders' Agreement) / 50% / HK\$1.13 per RMB / 44.5 million m<sup>3</sup> / 2.6 ton per m<sup>3</sup>



## LETTER FROM MUHKC

However, Boom Victory recorded net losses and negative EBITDA for the most recent financial year ended 31 December 2008 according to the relevant unaudited management accounts (due to pre-operating expenses). Accordingly, our attempted assessment approach with reference to price/earnings multiple or EV/EBITDA multiple is not applicable.

- *Price/book multiple approach*

As an alternative to the above approaches, we further assess the consideration under the SPA and the Shareholders' Agreement with reference to the attributable book value of the Sale Shares and the Shareholder's Loan. For comparison purpose, and to our best knowledge, we have identified from Bloomberg a total of nine companies engaging in quarrying industry and listed on Asia-Pacific stock exchanges with market capitalisation ranging from HK\$40,000,000 (representing the consideration under the SPA) to HK\$157,084,895 (representing the aggregate consideration receivable under the SPA and the Shareholders' Agreement) on 18 February 2009, being the date of the SPA and of the Shareholders' Agreement (the "Comparables"), details of which are set out below:

Name	Ticker	Stock Exchange	Principal business	Market Capitalisation (HKD in million)	Closing price per share <sup>1</sup> (1)	Latest book value per share <sup>2</sup> (2)	Price/Book(times) (3) = (1)/(2)
Dong Won Co Ltd.	003580 KS Equity	Korea	Owns and operates coal mines in South Korea. Products include hard coal for industrial and household uses. Also develops overseas oil and gas fields, especially in South America.	154	KRW6,200.00	KRW8,103.8	0.8
Vinaconex Advanced Compound Stone JSC	VCS VN Equity	Vietnam	Extracts natural quartz to produce engineering stone (quartz surface).	123	VND21,500.00	VND25,276.6	0.9
Minetech Resources Bhd	MINE MK Equity	Malaysia	Offers quarrying services, including drilling, blasting, loading, hauling, rock crushing, and loading of finished aggregates to the quarrying and civil engineering industries. Markets aggregates, manufactures premix products, and markets machinery parts.	106	MYR0.17	MYR0.2	0.7
Brandrill Ltd	BDL AU Equity	Australia	Provides drilling and blasting services under contract to open cut and underground mining industries. Underground services also includes loading and hauling of the blasted materials as well as providing drilling and blasting services to the civil construction.	82	AUD0.04	AUD0.2	0.2
Mitra Investindo Tbk PT	MITI IJ Equity	Indonesia	Mines and sells granite. Also operates in activities related natural resources and infrastructure development.	82	IDR50.00	IDR9.1	5.5
Hoa An JSC	DHA VN Equity	Vietnam	Supplies construction materials and offers road building services.	76	VND17,000.00	VND20,640.7	0.8
Solid Stone Co Ltd	SLSC IN Equity	India	Manufactures a wide range of natural stone. Products include include Slatestones, Sandstones, Limestones Quartzites, Travertines, exclusive Indian Marbles & Granites along with a select variety of other Marbles, Granites & Onyx frm South America, Europe,	64	INR109.00	INR22.6	4.8
Vulcan Industrial & Mining	VUL PM Equity	Philippines	Produces angular basalt rock fragments used in making concrete.	50	PHP0.52	PHP1.0	0.5
ARO Granite Industries Ltd	AGI IN Equity	India	Manufactures granite slabs and tiles.	50	INR28.75	INR72.1	0.4
						<b>Median</b>	<b>0.8</b>
						<b>Mean</b>	<b>1.6</b>

Source: Bloomberg

## LETTER FROM MUHKC

	Consideration (1) HK\$	50% attributable book value <sup>5</sup> (2) HK\$	Price/Book (3) = (1)/(2) (times)
Sale Shares	40,000,000 <sup>3</sup>	1,740,714	23.0
	150,000,000 <sup>4</sup>		86.2
Shareholder's Loan	7,084,895	4,976,442	1.4
 TOTAL	 47,084,895 <sup>3</sup>	 6,717,156	 7.0
	157,084,895 <sup>4</sup>		23.4

*Notes:*

1. latest traded closing price by 18 February 2009.
2. published by 18 February 2009 by Bloomberg.
3. representing only the consideration under the SPA.
4. representing the aggregate consideration receivable under the SPA and the Shareholders' Agreement.
5. unaudited as at 31 December 2008.

Upon comparison, we note that the price/book multiple represented by the consideration under the SPA and/or the Shareholders' Agreement (ranging from 1.4 times to 86.2 times) is within the range of the Comparables from 0.2 times to 5.5 times and is higher than the median and mean of the Comparables of 0.8 times and 1.6 times.

From the perspective of price/book multiples with reference to the Comparables, we consider that the consideration under the SPA and/or the Shareholders' Agreement is fair and reasonable so far as the Group as vendor is concerned. However, the attributable book value of the Sale Shares and the Shareholder's Loan for the aforesaid comparison is recognised at cost and has yet to account for any valuation of market value of rock reserves of the Site. Hence, this approach for assessing the consideration under the SPA and the Shareholders' Agreement may not be the most relevant and meaningful.

**(ii) Payment terms**

Pursuant to the SPA, the aggregate consideration of HK\$47,084,895 for the Sale Shares and the Shareholder's Loan had been fully paid in cash immediately upon signing of the SPA.

Pursuant to the Shareholders' Agreement, Pioneer is required to pay to Spring High a total sum of HK\$110,000,000 in seven annual instalments between the third to ninth anniversaries of Completion. The parties agreed on the payment terms of

## LETTER FROM MUHKC

HK\$110,000,000 by way of 7 instalments (from 3rd to 9th anniversary of Completion) under the Shareholders' Agreement after considering that Alliance will need a long period of time to consume the rock reserve and a maximum payment period of 9 years after Completion of the Disposal. Meanwhile, as discussed with the Company, Spring High accepts the risk of "uncontrollable event" and, hence, agrees with Pioneer that in case of any reason not attributable to the fault of Pioneer:

- (i) the Mining Licence;
- (ii) any approvals, permissions and authorizations required and necessary for the lawful operations of the business of the CJV; and/or
- (iii) the right of the CJV to export the Quarried Products to Hong Kong,

is/are revoked or terminated before the expiry of their original terms or expire and cannot be renewed within 6 months of such revocation, termination or expiry, then Pioneer is entitled to discontinue paying any remaining outstanding instalments.

However, Pioneer's payment obligation shall resume if any such licence, approval, permissions, authorizations and rights are renewed within 36 months from the date of such revocation, termination or expiry. Upon our enquiry and review of the Shareholders' Agreement, we understand such resumption of payment obligation is on a retrospective basis, that is, any instalments originally scheduled to be payable during the applicable payment suspension period are only postponed and are not extinguished during the suspension period.

In any event, as far as the interests of the Group as vendor to the Transactions is concerned, we consider that the said risk of not receiving remaining outstanding instalments of HK\$110,000,000 under the Shareholders' Agreement shall be attributable to reasons beyond control of the Company. In case the said "uncontrollable event" clause is triggered after Completion of the Disposal, the business fundamentals, the future prospect and hence the market worth of the Site (and accordingly Boom Victory indirectly) would be jeopardised, but the Group (as the then 50% shareholder of Boom Victory) would still be in a position not worse-off than what would otherwise have been when no Transactions have been entered into (as the existing 100% shareholder of Boom Victory).

By contrast, we note that there is accelerated payment mechanism under the Shareholders' Agreement whereby all the outstanding instalments are immediately due and payable by Pioneer to Spring High if

- (a) Pioneer has extracted, processed and removed Rock representing 50% of the presently estimated available reserves from the Site any time before all payments have been made;
- (b) Spring High purchases the Boom Victory shares of Pioneer on an event of default or deadlock under the Shareholders' Agreement;

## LETTER FROM MUHKC

- (c) Pioneer transfers any Boom Victory shares to an entity other than Alliance's wholly owned subsidiary; or
- (d) any Boom Victory Group company is wound up due to the fault of Pioneer or its affiliate.

After our discussion with the Company, we consider that the aforesaid accelerated payment mechanism represents the positive outcome of arm's length commercial negotiation with a view to safeguarding the Group's interests as vendor to the Transactions.

In summary, we consider the payment term under the Transactions (in particular as to the instalment and accelerated payment mechanism under the Shareholders' Agreement) is not uncommon for any given disposal transaction which is subject to risk of uncontrollable event.

### **(iii) *Guarantee and indemnities***

Under the SPA, K. Wah Construction and Alliance have guaranteed the performance of obligations (including payment of sums) by Spring High and Pioneer (respectively). In addition, K. Wah Construction and Spring High shall jointly and severally

- (1) be responsible for and discharge all claims and losses which have not been reflected or provided for in the Accounts which may be suffered by the CJV in connection with
  - (a) the liability incurred prior to Completion regarding the employment of any staff or employee of the CJV, and
  - (b) the ready-mixed concrete business or activities conducted by K. Wah Huidong Branch prior to Completion;
- (2) indemnify Pioneer and the Boom Victory Group against tax claims if they arise out of the business of the Boom Victory Group prior to Completion and not provided for in the Accounts; and
- (3) be responsible for claims arising out of the liquidation of K. Wah Huidong Branch and the disposal of a certain piece of land.

K. Wah Huidong Branch is a branch of the CJV and previously ran a reinforced mixed concrete business which business ceased in 2006.

After our discussion with the Company, we consider that the aforesaid guarantee and indemnities (in essence "against claims and losses un-provided and un-reflected prior to Completion") are not uncommon outcomes of arm's length commercial negotiation with a view to safeguarding the purchaser's interests for any given disposal transaction.

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### (iv) *Management*

We summarise the number of directors to which each of Spring High, Pioneer, and (where applicable) the PRC partner shall be entitled (as to nomination, removal and substitution) pursuant to the Shareholders' Agreement in the table below (for so long as Spring High and Pioneer each holds 50% of the Boom Victory shares in issue):

<b>Each Boom Victory Group company (other than the CJV)</b>				
<b>Joint venture partner</b>	<b>The Group (Spring High)</b>	<b>Pioneer</b>		
Shareholding	50%	50%		
<b>Directors</b>	<b>2</b>	<b>2</b>	<b>100%</b>	<b>4</b>
<b>CJV</b>				
<b>K. Wah Materials and Development (Huidong) Company Limited</b>				
<b>Joint venture partner</b>	<b>The Group (Spring High)</b>	<b>Pioneer</b>	<b>PRC partner</b>	<b>TOTAL</b>
<b>Directors</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>5</b>

We note that Spring High shall have the right to appoint one of its directors as chairman of the board of each company in the Boom Victory Group (including the CJV) with a casting vote in case of an equality of votes at board level.

### (v) *Capital contribution and distribution policy*

In relation to the general and additional financial requirements of the CJV:

- (a) Spring High and Pioneer shall procure that the CJV will undertake all reasonable efforts to support its operations and generate all monies it requires, including working capital, from the operations of the CJV;
- (b) if determined by the board of the CJV that any additional financing is required by the CJV, each of Spring High and Pioneer shall contribute to the CJV additional capital (including working capital) up to HK\$15,000,000, either in cash or in kind, by means of shareholder loan or by the subscription of further Boom Victory shares in proportion to their respective shareholdings in Boom Victory on such terms as determined by the board of the CJV;

## LETTER FROM MUHKC

- (c) if determined by the board of the CJV that it is necessary to obtain any borrowing from external sources to fund the requirements of the CJV, (i) such funding will be obtained by means of advances and credits from banks and/or financial institutions and/or similar sources and (ii) Spring High and Pioneer shall, if so required, provide guarantee(s) to the provider of the loan or other credit facility.

Each of Spring High and Pioneer will also contribute to the CJV such plant and equipment as is deemed necessary by the management committee of the CJV (which comprises of 4 members with two nominated by each of Spring High and Pioneer) for the operations of the CJV at a value to be assessed by an independent valuer to be appointed jointly by them. The value of any contributed assets (as determined by the valuer) will be treated as a shareholder loan made by that shareholder.

To the extent that any government or financial institution, utility or other entities shall require any guarantees, bonds, indemnities or covenants from Spring High and Pioneer, they are required to give or to procure that such security be given and such security shall be given severally in proportion to their respective shareholdings in Boom Victory.

The distribution policy of each of the Boom Victory Group companies shall be firstly to repay in full all outstanding shareholders' loans to the maximum extent possible and secondly to distribute cash dividend to the shareholders of Boom Victory to the maximum amount possible, in both cases, having regard to any need to maintain reserves for unexpected contingencies, future budgeted capital expenditure or working capital purposes as the board of directors of Boom Victory may consider appropriate.

We consider the above arrangements (in essence "severally in proportion to the respective shareholding of joint venture partners") are common features found in typical form of strategic joint venture such as in the case of the CJV.

### **(vi) Operation**

Pioneer is entitled to an agreed amount of the rock reserves at the Site and Spring High is entitled to all remaining rock reserves at the Site. We understand from the Company that the said agreed amount represents 50% of the presently estimated available reserves from the Site. The price at which each of Spring High and Pioneer shall take the Quarried Products from the CJV shall be agreed between the parties and shall reflect as a minimum the total costs of production of the Quarried Products.

Based on the forgoing, we consider that the Quarried Products of the CJV have been agreed to be sold at a price level not lower than the total costs of relevant production to each of Spring High and Pioneer, which are expected to represent two key customers of the CJV after Completion.

**3. Financial effects of the Transactions**

**(i) Earnings/Net assets**

As set out in the Letter from the Board, there will be a disposal gain estimated to be approximately HK\$40 million (before expenses) arising from the Disposal based on the payment of HK\$47,084,895 under the SPA less the carrying value of the investment. This is calculated based on the consideration payable for the Sale Shares under the SPA of HK\$40 million less approximately HK\$2 million (being half of the unaudited net asset value of Boom Victory as at 31 December 2008) plus the difference between the consideration paid for the Shareholder's Loan of approximately HK\$7 million and its principal amount of approximately HK\$5 million. As Completion took place on 18 February 2009, such estimated disposal gain is expected to be reflected in the consolidated profit and loss account of the Group for the year ending 31 December 2009. In turn, such estimated disposal gain (after expenses) is expected to impact positively on the net assets position of the Group by an equivalent amount.

After our discussion with the Company, we note that the aforesaid estimated disposal gain has only accounted for the consideration under the SPA without yet including the outstanding receivable of HK\$110,000,000 on instalments basis under the Shareholders' Agreement. In the event that Pioneer actually pays to Spring High a total sum of HK\$110,000,000 in seven annual instalments between the third to ninth anniversaries of Completion subject to the terms of the Shareholders' Agreement, it is possible that the consolidated profit and loss account of the Group would be impacted positively for the years ending 31 December 2012 to 31 December 2018.

Upon Completion, Boom Victory ceases to be a subsidiary of the Company and its result will be equity accounted for as a jointly controlled entity of the Company. On such basis, we envisage that the Group would cease to benefit from 50% of any future earnings contribution potential from Boom Victory following Completion.

**(ii) Liquidity/Cashflow**

As discussed with the Company, the Company intends to apply the net proceeds (i) received from the Disposal under the SPA (representing about 30% of the aggregate consideration receivable under the Transactions) and (ii) receivable on seven annual instalments between the third to ninth anniversaries of Completion subject to the terms of the Shareholders' Agreement (representing about 70% of the aggregate consideration receivable under the Transactions) for its general working capital requirements.

On such basis, and taking into further account that the Group would upon Completion no longer be required to support 50% of the working capital requirements of Boom Victory Group and the CJV, the Transactions are expected to have positive impact on the liquidity position of the Group immediately upon Completion and (possibly) for the years ending 31 December 2012 to 31 December 2018. However, the Group would at the same time cease to benefit from 50% of any future cashflow contribution potential from Boom Victory Group and the CJV following Completion.

## LETTER FROM MUHKC

### (iii) *Gearing*

Upon Completion, Boom Victory ceases to be a subsidiary of the Company and its liabilities will no longer be consolidated into that of the Group.

However, Boom Victory had no outstanding liabilities other than amounts due to holding companies according to the unaudited consolidated management accounts of Boom Victory for the year ended 31 December 2008. On such basis, the Transactions are expected to have neutral impact on the gearing ratio of the Group immediately upon Completion.

### **RECOMMENDATION**

Having considered the principal factors and reasons, we are of the opinion that the terms of the Transactions are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

So far as the Company is aware having made all reasonable enquiries, no shareholder is required to abstain from voting on the Transactions. Pursuant to Rule 14A.43 of the Listing Rules, a closely allied group of shareholders holding approximately 50.8% of the total issued share capital of the Company have given written consent to the Transactions in lieu of a shareholders meeting being convened to approve the Transactions. The Company has applied to the Stock Exchange for a waiver of such shareholders meeting and a waiver has been granted by the Stock Exchange.

Yours faithfully,  
For and on behalf of  
**Mitsubishi UFJ Securities (HK) Capital, Limited**  
**Eddy Chick**  
*Chief Executive*

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular relating to the Group and confirm, having made all reasonable enquiries that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### A. Directors' Interests

As at the Latest Practicable Date, the interests and short positions of the Directors in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered into the register required to be kept under section 352 of the SFO were as follows:

#### (i) Shares (including underlying Shares)

Name	Number of Shares (including underlying Shares)				Total	Percentage of Issued Share Capital
	Personal Interests	Family Interests	Corporate Interests	Other Interests		
Lui Che Woo	20,637,632	2,181,518	395,362,426 <sup>(1)</sup>	2,547,267,923 <sup>(2)</sup>	2,965,449,499	75.30
Francis Lui Yiu Tung	16,498,896	—	407,558,099 <sup>(3)</sup>	2,541,392,504 <sup>(2)</sup>	2,965,449,499	75.30
Joseph Chee Ying Keung	3,103,000	—	—	—	3,103,000	0.08
Paddy Tang Lui Wai Yu	10,939,722	—	—	2,954,509,777 <sup>(2)</sup>	2,965,449,499	75.30
Moses Cheng Mo Chi	500,000	—	—	—	500,000	0.01
James Ross Ancell	250,000	—	—	—	250,000	0.01
William Yip Shue Lam	250,000	—	—	—	250,000	0.01
Anthony Thomas	2,800,000	—	—	—	2,800,000	0.07
Christopher Carter	—	—	—	—	—	—
Martin Clarke	—	—	—	—	—	—
Guido Paolo Gamucci	—	—	—	—	—	—
Patrick Wong Lung Tak	—	—	—	—	—	—

#### Notes:

- (1) 80,387,837 Shares, 305,401 Shares, 106,716,107 Shares, 162,484,047 Shares, 13,308,179 Shares, 9,660,855 Shares and 22,500,000 Shares were respectively held by Best Chance Investments Ltd., Po Kay Securities & Shares Company Limited, Super Focus Company Limited, Sutimar Enterprises Limited, Premium Capital Profits Limited, Mark Liaison Limited and Favor Right Investments Limited, all controlled by Dr. Lui Che Woo.

- (2) A discretionary family trust established by Dr. Lui Che Woo as founder was interested in 1,313,887,206 Shares. 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 trust, are deemed to have an interest in those Shares in which the trust has an interest.

Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu are, among others, parties to certain arrangements to which Section 317 of the SFO applies and each of them is deemed, for the purpose of the disclosure requirements in Part XV of the SFO, to be interested in any Shares held by the other parties to such arrangements for so long as such arrangements are in place. The deemed interests pursuant to these arrangements of Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu were 1,233,380,717 Shares, 1,227,505,298 Shares and 1,640,622,571 Shares respectively.

- (3) 114,504,039 Shares were held by Recurrent Profits Limited which is controlled by Mr. Francis Lui Yiu Tung. Top Notch Opportunities Limited ("Top Notch") was interested in 171,916,021 underlying Shares. Kentlake International Investments Limited ("Kentlake") was interested in 60,000,000 Shares and 61,138,039 underlying Shares. Both Kentlake and Top Notch are controlled by Mr. Francis Lui Yiu Tung.

(ii) *Share Options*

The particulars of the options held by each of the Directors as at the Latest Practicable Date were as follows:

Name	Date of grant	Number of Options held	Exercise price (HK\$)	Exercise period
Lui Che Woo	30 Dec 1999	1,800,000	0.5216	30 Dec 2000–29 Dec 2009
	28 Feb 2003	2,000,000	0.5140	1 Mar 2004–28 Feb 2013
	21 Oct 2005	2,700,000	4.5900	22 Oct 2005–21 Oct 2011
	21 Oct 2005	590,000	4.5900	22 Oct 2006–21 Oct 2011
	17 Jan 2008	862,500	6.9720	17 Jan 2010–16 Jan 2014
	17 Jan 2008	862,500	6.9720	17 Jan 2011–16 Jan 2014
	17 Jan 2008	1,725,000	6.9720	17 Jan 2012–16 Jan 2014
Francis Lui Yiu Tung	30 Dec 1999	1,600,000	0.5216	30 Dec 2000–29 Dec 2009
	28 Feb 2003	1,870,000	0.5140	1 Mar 2004–28 Feb 2013
	21 Oct 2005	6,000,000	4.5900	22 Oct 2005–21 Oct 2011
	21 Oct 2005	580,000	4.5900	22 Oct 2006–21 Oct 2011
	17 Jan 2008	1,250,000	6.9720	17 Jan 2010–16 Jan 2014
	17 Jan 2008	1,250,000	6.9720	17 Jan 2011–16 Jan 2014
Joseph Chee Ying Keung	21 Oct 2005	270,000	4.5900	22 Oct 2006–21 Oct 2011
	18 Aug 2008	383,000	3.3200	18 Aug 2009–17 Aug 2014
Paddy Tang Lui Wai Yu	21 Oct 2005	3,000,000	4.5900	22 Oct 2005–21 Oct 2011
	21 Oct 2005	400,000	4.5900	22 Oct 2006–21 Oct 2011
	17 Jan 2008	500,000	6.9720	17 Jan 2010–16 Jan 2014
	17 Jan 2008	500,000	6.9720	17 Jan 2011–16 Jan 2014
	17 Jan 2008	1,000,000	6.9720	17 Jan 2012–16 Jan 2014

Name	Date of grant	Number of Options held	Exercise price (HK\$)	Exercise period
Moses Cheng Mo Chi	—	—	—	—
James Ross Ancell	21 Oct 2005	250,000	4.5900	22 Oct 2006–21 Oct 2011
William Yip Shue Lam	21 Oct 2005	250,000	4.5900	22 Oct 2006–21 Oct 2011
Anthony Thomas Christopher Carter	21 Oct 2005	2,500,000	4.5900	22 Oct 2005–21 Oct 2011
Martin Clarke	—	—	—	—
Guido Paolo Gamucci	—	—	—	—
Patrick Wong Lung Tak	—	—	—	—

The consideration paid by each of the grantees on each acceptance of the options was HK\$1.00.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any interests and short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered into the register required to be kept under section 352 of the SFO.

#### **B. Substantial Shareholders' Interests**

As at the Latest Practicable Date, so far as is known to the Directors, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of any member of the Group.

(i) *Interests in the Company*

Name	Number of Shares (Long Position)	Percentage of Issued Share Capital
City Lion Profits Corp.	2,965,449,499 <sup>(1)</sup>	75.30
ENB Topco 2 S.à.r.l	2,965,449,499 <sup>(1)(3)</sup>	75.30
Galaxy Entertainment Group Limited	2,965,449,499 <sup>(1)</sup>	75.30
HSBC International Trustee Limited	1,313,887,206 <sup>(2)</sup>	33.36
Mark Liaison Limited	2,965,449,499 <sup>(1)</sup>	75.30
Permira Holdings Limited	2,965,449,499 <sup>(1)(4)</sup>	75.30
Permira Holdings LLP	2,965,449,499 <sup>(1)(4)</sup>	75.30
Premium Capital Profits Limited	2,965,449,499 <sup>(1)</sup>	75.30
Recurrent Profits Limited	2,965,449,499 <sup>(1)</sup>	75.30
Super Focus Company Limited	2,965,449,499 <sup>(1)</sup>	75.30

*Notes:*

- (1) City Lion Profits Corp., ENB Topco 2 S.à.r.l, Galaxy Entertainment Group Limited, Mark Liaison Limited, Permira Holdings Limited, Permira Holdings LLP, Premium Capital Profits Limited, Recurrent Profits Limited and Super Focus Company Limited are, among others, parties to certain arrangements to which Section 317 of the SFO applies and each of them is deemed, for the purpose of the disclosure requirements in Part XV of the SFO, to be interested in any Shares held by the other parties to such arrangements for so long as such arrangements are in place. Their deemed interests pursuant to these arrangements were 1,651,562,293 Shares, 2,322,730,916 Shares, 2,965,449,499 Shares, 2,955,788,644 Shares, 2,167,065,499 Shares, 2,167,065,499 Shares, 2,952,141,320 Shares, 2,850,945,460 Shares and 2,696,249,345 Shares respectively.
- (2) HSBC International Trustee Limited is the trustee of a discretionary family trust established by Dr. Lui Che Woo as founder, which was interested in 1,313,887,206 Shares.
- (3) ENB Topco 2 S.à.r.l is deemed to have an interest in the Shares as a result of the direct holding of the Shares by ENB Lux 2 S.à.r.l, its wholly-owned subsidiary.
- (4) Permira Holdings Limited is deemed to have an interest in the Shares in its capacity as the holding company of the general partner and manager of the funds which control the companies holding the Shares. Permira Holdings LLP is deemed to have an interest in the Shares in its capacity as the holding company of Permira Holdings Limited.

There was duplication of interests of:

- (i) 1,313,887,206 Shares between Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung, Ms. Paddy Tang Lui Wai Yu, City Lion Profits Corp. and HSBC International Trustee Limited;
- (ii) 9,660,855 Shares between Dr. Lui Che Woo and Mark Liaison Limited;
- (iii) 13,308,179 Shares between Dr. Lui Che Woo and Premium Capital Profits Limited;
- (iv) 269,200,154 Shares between Dr. Lui Che Woo and Super Focus Company Limited;

- (v) 114,504,039 Shares between Mr. Francis Lui Yiu Tung and Recurrent Profits Limited;
- (vi) 642,718,583 Shares between Permira Holdings Limited, Permira Holdings LLP and ENB Topco 2 S.à.r.l.; and
- (vii) apart from the above, duplication of interests also existed among Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung, Ms. Paddy Tang Lui Wai Yu, City Lion Profits Corp., ENB Topco 2 S.à.r.l., Galaxy Entertainment Group Limited, Mark Liaison Limited, Permira Holdings Limited, Permira Holdings LLP, Premium Capital Profits Limited, Recurrent Profits Limited and Super Focus Company Limited, which are parties to certain arrangements to which Section 317 of the SFO applies. As a result, each of them is deemed, for the purpose of the disclosure requirements in Part XV of the SFO, to be interested in any Shares held by the other parties to such arrangements for so long as such arrangements are in place. Their interests were duplicated to the extent as disclosed in the relevant notes above.
- (ii) *Interests in other members of the Group*

<b>Name of subsidiary</b>	<b>Name of direct or indirect owner of shares or equity interest (as the case may be)</b>	<b>Effective % of equity interest held</b>
Brilliant Field Investments Limited	Pedro Ho On Chun	10%
Charm Rich International Limited	Pedro Ho On Chun	10%
Clear Rise Enterprises Limited	Pedro Ho On Chun	10%
E-cost Enterprises Limited	Ke Guo Bin	22.22%
Fast Concrete Limited	Joint Link Development Limited	25%
Firmever Limited	Joint Link Development Limited	25%
Forcecharm (Hong Kong) Enterprises Limited	Sumitomo Osaka Cement Co., Ltd.	20%

<b>Name of subsidiary</b>	<b>Name of direct or indirect owner of shares or equity interest (as the case may be)</b>	<b>Effective % of equity interest held</b>
Forcecharm Investments Limited	Sumitomo Osaka Cement Co., Ltd.	20%
Galaxy A Hotel Macau Limited	Pedro Ho On Chun	10%
Galaxy B.T. Resort Limited	Pedro Ho On Chun	10%
Galaxy B1 Hotel Limited	Pedro Ho On Chun	10%
Galaxy Casino, S.A.	Pedro Ho On Chun	10%
Galaxy Entertainment Finance Company Limited	Pedro Ho On Chun	10%
Galaxy Hotel Management Company Limited	Pedro Ho On Chun	10%
Galaxy Professional Services Limited	Pedro Ho On Chun	10%
Galaxy Project Management Company Limited	Pedro Ho On Chun	10%
Galaxy Tour & Travel Co. Ltd.	Pedro Ho On Chun	10%
Glory Rise Investments Limited	Pedro Ho On Chun	10%
Green Palace Investments Limited	Pedro Ho On Chun	10%
Guangzhou Jiafang Concrete Co., Ltd.	廣州宏圖實業公司 (Guangzhou Hongtu Enterprise Company)	20%
	廣州市土地開發綜合服務公司 (Guangzhou Land Development Integrated Services Company)	10%
	廣州市房地產實業總公司 (Guangzhou Real Estate Enterprise Company)	10%
惠州大亞灣嘉華混凝土有限公司 (K. Wah Concrete (Huizhou Daya Bay) Limited)	Dayabay Hong Kong Limited	20%

<b>Name of subsidiary</b>	<b>Name of direct or indirect owner of shares or equity interest (as the case may be)</b>	<b>Effective % of equity interest held</b>
K. Wah Concrete Technology Consultancy Limited	Dayabay Hong Kong Limited	20%
KWP Quarry Co. Limited	Pioneer Quarries (Hong Kong) Limited	36.5%
Majestic Orient Limited	Pedro Ho On Chun	10%
New Galaxy Entertainment Company Limited	Pedro Ho On Chun	10%
Ocean Rights Investments Limited	Pedro Ho On Chun	10%
Oi Ling Ding (Zhuhai) Precast Concrete Products Limited	珠海市東區恒升建材有限公司 (Zhuhai Eastern District Hengsheng Construction Materials Company Limited)	25%
Perfect Smart International Limited	Pedro Ho On Chun	10%
遷安首嘉建材有限公司 (Qianan Shougang K. Wah Construction Materials Company Limited)	首鋼總公司 (Shougang Corporation) 河北省首鋼遷安鋼鐵有限責任公司 (Hebei Shougang Qian'An Iron & Steel Co., Ltd.)	30% 15%
Right Grand Investments Limited	Sumitomo Osaka Cement Co., Ltd.	20%
Shanghai Ganghui Concrete Co., Ltd.	上海徐房建築實業公司 (Shanghai Xufang Construction Enterprise Company)	40%
Shanghai Jiafu Concrete Co., Ltd.	上海富盛浙工建材有限公司 (Shanghai Fusheng Zhejiang Construction Materials Company Limited)	45%
Shanghai Jiajian Concrete Co., Ltd.	上海市第一市政工程有限公司 (Shanghai Diyishizheng Construction Materials Company Limited)	39%

<b>Name of subsidiary</b>	<b>Name of direct or indirect owner of shares or equity interest (as the case may be)</b>	<b>Effective % of equity interest held</b>
Sky Majestic Enterprises Limited	Pedro Ho On Chun	10%
StarWorld Hotel Company Limited	Pedro Ho On Chun	10%
Success Management Services Company Limited	Pedro Ho On Chun	10%
Success Tower Properties Limited	Pedro Ho On Chun	10%
Top Hit Technology Limited	Hong Kong-Dal Limited Digital Ventures Limited	20% 10%
Top Line Road Safety Engineering Co. Limited	Hui Tak Chin Wan Wing Shun	22% 10%
Wealth Ahead Investments Limited	Pedro Ho On Chun	10%
Wise Concrete Limited (incorporated in the British Virgin Islands)	Joint Link Development Limited	25%
Wise Concrete Limited (incorporated in Macau)	Joint Link Development Limited	25%

Save as disclosed above, the Directors are not aware that there is any person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of any other member of the Group.

#### **C. Competing Interests of Directors and Associates**

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

#### **D. Directors' Service Contracts**

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

**E. Litigation**

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

**F. Material Adverse Change**

For the purpose of complying with Hong Kong Financial Reporting Standards, the Group assesses whether there are prevailing impairment indicators at each reporting date for the carrying value of all its assets to ensure that the recoverable amount is higher than the carrying value. In the event that any impairment of assets is required and if the amount is substantial, there will be a one-off non-cash impairment loss which may have a material adverse effect on the financial position of the Group.

Save as referred to in the above paragraph and in Note 7 to the interim financial information in the Company's Interim Report 2008 in relation to the impairment of gaming licence, at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2007, the date to which the latest audited consolidated financial statements of the Group were made up.

**G. Interests in Assets of the Group**

As at the Latest Practicable Date, none of the Directors or MUHKC had any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by or leased to, any member of the Group since 31 December 2007 (being the date to which the latest published audited consolidated financial statements of the Company were made up).

**H. Interests in Contracts**

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

**I. Qualifications of Expert and Consent**

- (i) The following are the qualifications of the expert which has given an opinion or advice which are contained in this circular.

<b>Name</b>	<b>Qualifications</b>
MUHKC	a registered institution for Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under Schedule 5 of the SFO

- (ii) MUHKC has given and has not withdrawn its written consent to the issue of this circular with the inclusion of and references to its name and the letter in the form and context in which it appears.
- (iii) As at the Latest Practicable Date, MUHKC did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

**J. Documents Available For Inspection**

Copies of the following documents are available for inspection at the office of Richards Butler in association with Reed Smith LLP at 20th Floor, Alexandra House, 16–20 Chater Road, Central, Hong Kong during normal business hours on any weekday (except public holidays) from the date of this circular up to and including 24 March 2009:

1. the SPA; and
2. the Shareholders' Agreement.

**K.** The English version of this circular shall prevail over the Chinese version.