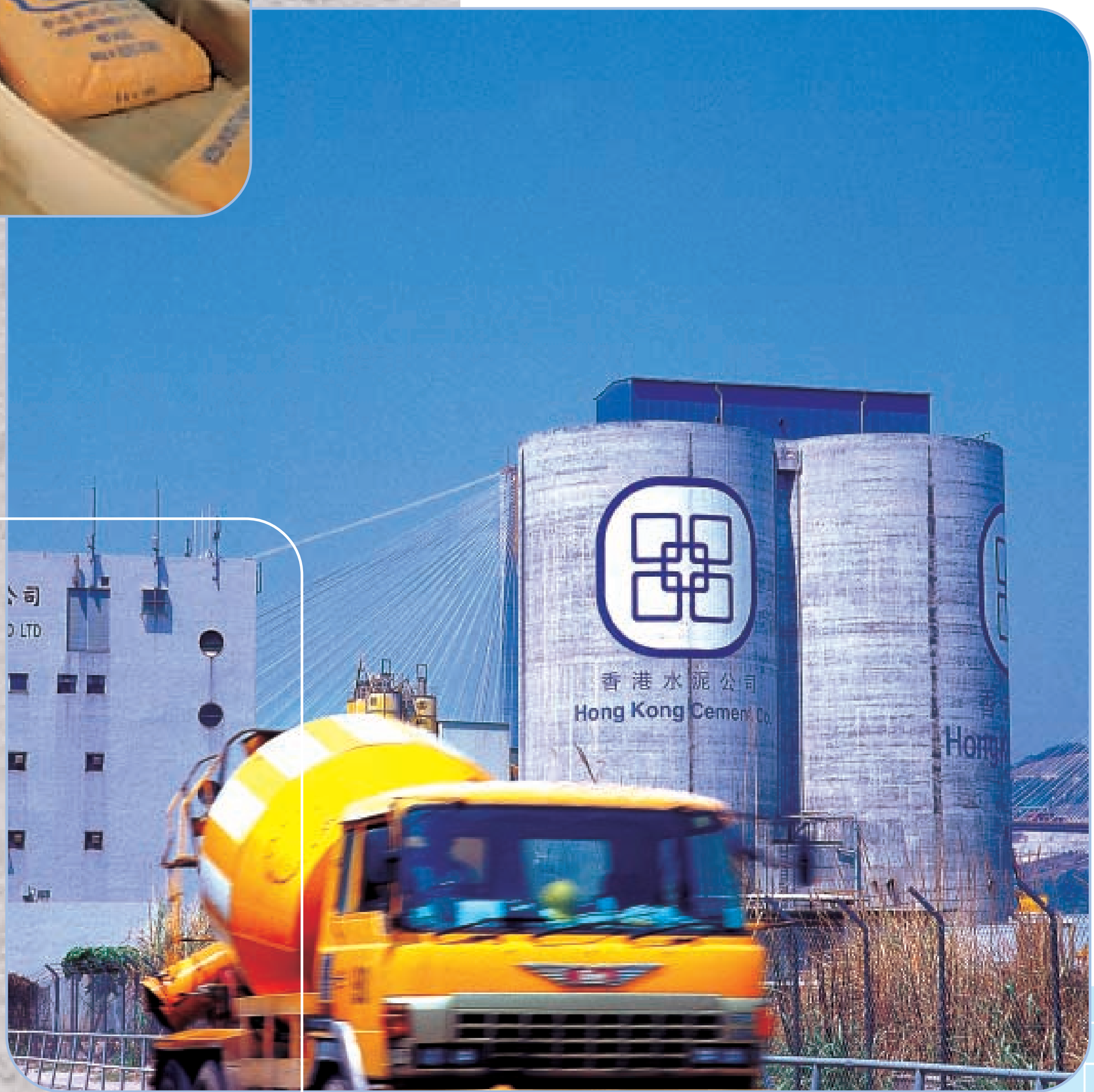
# Operation Review



The Directors would like to report that the Group's audited consolidated turnover for the year ended 31 December 2004 was HK$315.4 million, rising by 24.5% from the previous year due to the commencement of contribution of sales revenue of the cement manufacturing plant in Yingde, Guangdong Province and a significant increase in sales revenue of the Group's slag powder grinding plant in Wuhu, Anhui Province. Net profit from ordinary activities attributable to shareholders for the year was HK$328.1 million, representing a growth of 446.8% from the prior year, which is mainly attributable to an unrealised gain on the merger in May 2004 of KG Telecommunications Co., Ltd. ("KGT"), in which the Group had a 9.87% equity interest, and Far EasTone Telecommunications Co., Ltd., ("FET") and the resulting unrealised holding gain on FET shares obtained upon the completion of the merger.

## Construction materials businesses

### HONG KONG

Market conditions of the Group's construction materials businesses in Hong Kong remained tough during the year. Public housing construction and infrastructure activities were still slow while the private residential sector was showing signs of recovery owing to the recent prosperity in the property market. Sales volume of the Group's cement distribution business in Hong Kong fell by 11.4% from the previous year, while there was a slight rebound in selling prices from the second half of the year. Demand for ready-mixed concrete remained sluggish, while selling prices began to recover following a consolidation of the industry in the year, thereby producing marginally better pre-tax profit contributed by ready-mixed concrete businesses carried on by associates of the Group.

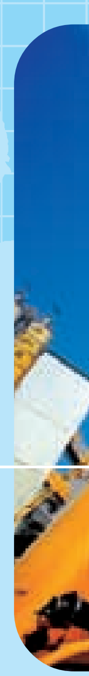
### MAINLAND CHINA

Anhui King Bridge Cement Co. Ltd. ("AKB"), the Group's 60%-owned subsidiary which operates a cement and slag powder grinding plant in Wuhu, took advantage of the boom of the construction industry in the Yangtze River Delta Region in the first half of the year and remained profitable thereafter despite the macroeconomic austerity measures implemented by the Chinese government. Accordingly, AKB achieved an increase in sales volume and net profit of 38.1% and 2.9 times, respectively, from the previous year.

The construction of the Group's wholly-owned cement grinding plant in Fuzhou, Fujian Province was completed and it started trial run in November 2004. The plant has an annual production capacity of 1.5 million metric tonnes. The related berth facilities commenced commercial operations in February 2005.

The Company's subsidiary has a 60% equity interest in a joint venture with Guangxi Liuzhou Steel (Group) Corporation. The construction of the slag powder grinding plant with an annual production capacity of 700,000 metric tonnes by the joint venture was in progress during the year under review.

The Group's manufacturing plant in Yingde, Guangdong Province, operated at a modest profit during the year. With convenient access to the Pearl River Delta by river transport, highways and railway and its advantageous location in the vicinity of extensive limestone sources, the Group began converting this area into a large-scale cement manufacturing base. Construction of two new dry-process cement production lines and ancillary facilities with a daily clinker production capacity of 5,000 metric tonnes each commenced in the fourth quarter of the year. When completed, it will have an annual cement production capacity of approximately four million tonnes.



## THE PHILIPPINES

The Group possesses cement distribution facilities in Manila and renders cement handling services. During the year under review, such services continued to generate steady, considerable income.

## OTHER SIGNIFICANT INVESTMENTS HELD

Provision for impairment of approximately HK$19.6 million was made in the year against various investment securities of the Group.

Upon completion of the merger of KGT and FET in May 2004, the Group's holding in shares in unlisted KGT was exchanged for shares in FET, which are traded over the counter in the GreTai Securities Exchange in Taiwan and have a market value of approximately HK$758.5 million as at 31 December 2004. A gain of HK$75.6 million was recognised upon the merger and an unrealised holding gain of approximately HK$231.1 million was recognised during the year using the market price of FET shares at the year end. As the Group intends to focus on developing its core construction materials businesses in Mainland China, the FET shares held by the Group will be disposed of if and when funds are required for that purpose.

As at 31 December 2004, the Group was holding highly liquid short term investments with an aggregate market value of HK$862.7 million, consisting of shares listed or traded over the counter on stock exchanges in Hong Kong and Taiwan and unit trusts. Gain on disposals of and unrealised gains on these investments for the year amounted to approximately HK$3.0 million and HK$228.8 million. These figures already accounted for the effect of holding FET shares as described above.