## 1. BASIS OF PREPARATION

The interim financial information has been prepared under historical cost convention as modified by the revaluation of certain properties and available-for-sale financial assets and other short-term investments and in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. The interim financial information has been presented in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies used in the preparation of the interim financial information are consistent with those used in the annual financial statements for the year ended 31st December 2004 except that the Group has changed certain of its accounting policies following its adoption of the new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods commencing on or after 1st January 2005. The changes to the Group's accounting policies and the effect of adopting these new policies are set out in note 2 below.

Following the adoption of the new HKFRS, certain comparative figures in the interim financial information have been restated or reclassified to conform with the current presentation. Major changes in the presentation are set out as follows:

| | **Presentation in 2004 annual financial statements** | **New presentation** |
|---|---|---|
| (a) | Share of taxation of jointly controlled entities and associated companies included under taxation | Share of profits less losses of jointly controlled entities and associated companies presented net of taxation |
| (b) | Loans receivable, amounts receivable from and payable to jointly controlled entities included under jointly controlled entities | Loans receivable, amounts receivable from and payable to jointly controlled entities classified under current and non-current assets or liabilities according to their terms of repayment |
| (c) | Loans from minority interests included under minority interests | Loans from minority interests classified under current and non-current liabilities according to their terms of repayment |

## 2. CHANGES IN ACCOUNTING POLICIES

### 2.1 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, jointly controlled entity and associated company at the effective date of acquisition, and, in respect of an increase in holding in a subsidiary, the excess of the cost of acquisition and the carrying amount of the proportion of the minority interests acquired. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

If the cost of acquisition is less than the fair value of the net assets acquired or the carrying amount of the proportion of the minority interests acquired, the difference is recognised directly in the profit and loss statement. Goodwill on acquisition of subsidiaries is included in intangible assets while goodwill on acquisition of jointly controlled entities and associated companies is included in investments in jointly controlled entities and associated companies. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

In previous years, goodwill arising on acquisitions is included in the balance sheet as a separate asset and amortised using the straight line method over its estimated useful life of not more than twenty years. The carrying amount of goodwill is reviewed annually and provision is made when, in the opinion of the Directors, there is impairment in value other than temporary in nature. Where the fair values ascribed to the net assets exceed the purchase consideration, such differences are recognised in the profit and loss statement in the year of acquisition or over the weighted average useful life of those non-monetary assets acquired. This accounting policy has been changed to conform with HKFRS 3 "Business Combinations". As a result of this change, the Group has adopted the transitional provision to write off the negative goodwill of HK$136,000 against the opening revenue reserve as at 1st January 2005 whereas the comparative amounts as at 31st December 2004 have not been restated.

## 2. CHANGES IN ACCOUNTING POLICIES (CONT'D)

### 2.2 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property. Investment property comprises freehold land, land held under operating leases and buildings held under finance leases. Land held under operating leases is classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value and valuations are reviewed annually by external valuers. Changes in fair values are recognised in the profit and loss statement.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and carried at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

If a property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this property at the date of transfer is recognised in equity as revaluation of property, plant and equipment under HKAS 16. However, if the fair value gives rise to a reversal of the previous impairment loss, this write-back is recognised in the profit and loss statement.

In previous years, a deficit in valuation was charged to the profit and loss statement; an increase was first credited to the profit and loss statement to the extent of any valuation deficit previously charged and thereafter was credited to the investment properties revaluation reserve. Upon the disposal of an investment property, any relevant revaluation surplus realised is transferred to the profit and loss statement. These accounting policies have been changed to conform with HKAS 40 "Investment property".

## 2. CHANGES IN ACCOUNTING POLICIES (CONT'D)

### 2.2 Investment properties (Cont'd)

As a result of the above changes in accounting policies, the opening revenue reserve at 31st December 2004 has been increased by HK$22.2 million arising from the transfer of leasehold land to investment properties during 2004. As at 31st December 2004, the valuation of investment properties was less than their original costs and the revaluation deficits had already been charged to the profit and loss statement in previous years and there was no investment properties revaluation reserve. Consequently, no prior period adjustment on revenue reserve and investment properties revaluation reserve is required.

### 2.3 Leases

The Group reclassifies prepayments of lease premiums from property, plant and equipment and development properties to leasehold land and land use rights following the adoption of HKAS 17 "Leases". The up-front prepayments made for leasehold land and land use rights are amortised on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss statement. The amortisation of the leasehold land and land use rights is capitalised under the relevant assets when the property on the leasehold land is under construction.

In previous years, leasehold land and land use rights were classified under property, plant and equipment and were stated at cost or valuation less accumulated depreciation and provision for impairment in value other than temporary in nature. The adoption of HKAS 17 has resulted in a change in the accounting policy of which the leasehold land is stated at cost less amortisation instead of valuation.

As a result of the above changes in accounting policies, the net book amount of leasehold land and land use rights has been increased by HK$254.6 million, property, plant and equipment have been decreased by HK$254.6 million, revenue reserve has been increased by HK$5.1 million and property revaluation reserve has been decreased by HK$27.4 million as at 31st December 2004.

## 2. CHANGES IN ACCOUNTING POLICIES (CONT'D)

### 2.4 Financial instruments

Upon adoption of HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement", there is a change of accounting policy relating to recognition, measurement, disclosure and presentation of financial assets. The Group classifies its investments in the following categories: financial assets at fair value through profit or loss (including other investments), loans and receivables, and available-for-sale financial assets.

Financial assets at fair value through profit or loss are classified as current assets if they are either held for trading or are expected to be realised within twelve months of the balance sheet date. Loans and receivables are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the balance sheet date.

Loans and receivables are carried at amortised cost using the effective interest method. Available-for-sale financial assets and financial assets at fair value through profit or loss are carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included in the profit and loss statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the profit and loss statement as gains or losses from investment securities.

## 2. CHANGES IN ACCOUNTING POLICIES (CONT'D)

### 2.4 Financial instruments (Cont'd)

In previous years, securities intended to be held for indefinite long-term purpose or strategic reason were included in the balance sheet under non-current assets and were carried at cost less provision. The carrying amounts of individual investments were reviewed at each balance sheet date to assess whether the fair values had declined below the carrying amounts. When a decline other than temporary had occurred, the carrying amount of such investment would be reduced to its fair value. The impairment loss was recognised as an expense in the profit and loss statement and was written back to profit and loss statement when the circumstances and events that led to the write-downs ceased to exist and there was persuasive evidence that the new circumstances and events would persist for the foreseeable future.

HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities. As a result of the above changes to the accounting policy, the classification of investments has been redesignated as at 1st January 2005 and there is no significant impact to the opening reserves of the Group. The comparative amounts as at 31st December 2004 have not been restated.

### 2.5 Provisions

Upon adoption of HKAS 16 "Property, plant and equipment", HKAS 37 "Provisions, contingent liabilities and contingent assets" and HKFRS-Int 1 "Changes in existing decommissioning, restoration and similar liabilities", there is a change in accounting policy of provision for environmental restoration and its related asset. Any changes in the measurement of provision for environmental restoration are added to or deducted from its related assets. The periodic unwinding of the discounts of the provision is recognised in the profit and loss statement as a finance cost as it incurs.

In previous years, cost of the asset related to the provision for environmental restoration was not adjusted by the changes in the provision. As a result of the above change in accounting policies, the revenue reserve and minority interests have been decreased by HK$20.3 million and HK$11.6 million, respectively, at 31st December 2004.

## 2. CHANGES IN ACCOUNTING POLICIES (CONT'D)

### 2.6 Share-based payments

Upon adoption of HKFRS 2 "Share-based payments", there is a change in the accounting policy for share-based payments. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. In previous years, the grant of share options to employees was not recognised as an expense in the profit and loss statement. Since all the existing share options had vested on or before 1st January 2005, a prior year adjustment is not required.

## 3. SEGMENT INFORMATION

The Group is principally engaged in the manufacture, sale and distribution of construction materials. There is no other significant identifiable separate business. In accordance with the Group's internal financial reporting and operating activities, the primary reporting is by geographical segments and a separate business segment is not relevant. Segment assets consist primarily of property, plant and equipment, other non-current assets, inventories, debtors and prepayments, and mainly exclude investments, taxation recoverable and cash and bank balances. Segment liabilities comprise mainly creditors, accruals and provisions. Sales are based on the country in which the customers are located.

## 3. SEGMENT INFORMATION (CONT'D)

A summary of the geographical segments is set out as follows:

| | Hong Kong *HK$'000* | Mainland China *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| **Six months ended 30th June 2005** | | | |
| Turnover | 235,831 | 303,741 | 539,572 |
| Other revenues | 25,616 | 1,112 | 26,728 |
| Operating profit | 5,900 | 3,398 | 9,298 |
| Finance costs | | | (5,998) |
| Share of profits less losses of | | | |
| Jointly controlled entities | 1,520 | 6,425 | 7,945 |
| Associated companies | 1,492 | — | 1,492 |
| Profit before taxation | | | 12,737 |
| Taxation | | | (280) |
| Profit for the period | | | 12,457 |
| Capital expenditure | 6,579 | 17,886 | 24,465 |
| Depreciation | 16,815 | 19,625 | 36,440 |
| Amortisation | 18,216 | 1,091 | 19,307 |
| **As at 30th June 2005** | | | |
| Segment assets | 1,033,543 | 901,948 | 1,935,491 |
| Jointly controlled entities | 4,772 | 251,419 | 256,191 |
| Associated companies | 20,142 | — | 20,142 |
| Unallocated assets | | | 1,391,231 |
| Total assets | | | 3,603,055 |
| Segment liabilities | 367,446 | 231,352 | 598,798 |
| Unallocated liabilities | | | 403,060 |
| Total liabilities | | | 1,001,858 |

## 3. SEGMENT INFORMATION (CONT'D)

| | Hong Kong<br>*HK$'000* | Mainland China<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|
| **Six months ended 30th June 2004** | | | |
| Turnover | 219,610 | 397,868 | 617,478 |
| Other revenues | 11,567 | 252 | 11,819 |
| Operating profit | 5,988 | 4,902 | 10,890 |
| Finance costs | | | (3,808) |
| Share of profits less losses of | | | |
| Jointly controlled entities | (19) | 4,305 | 4,286 |
| Associated companies | 865 | — | 865 |
| Profit before taxation | | | 12,233 |
| Taxation | | | (1,312) |
| Profit for the period | | | 10,921 |
| Capital expenditure | 4,830 | 37,284 | 42,114 |
| Depreciation | 15,885 | 20,459 | 36,344 |
| Amortisation | 17,868 | 1,249 | 19,117 |
| **As at 31st December 2004** | | | |
| Segment assets | 950,196 | 919,877 | 1,870,073 |
| Jointly controlled entities | 3,248 | 244,995 | 248,243 |
| Associated companies | 18,650 | — | 18,650 |
| Unallocated assets | | | 277,617 |
| Total assets | | | 2,414,583 |
| Segment liabilities | 382,054 | 231,380 | 613,434 |
| Unallocated liabilities | | | 336,860 |
| Total liabilities | | | 950,294 |

## 4. OPERATING PROFIT

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| **Operating profit is stated after crediting:** | | |
| Interest income | **6,332** | 4,868 |
| Dividend income from unlisted investments | **12,721** | — |
| Write back of stock provision | **1,332** | — |
| Profit on disposal of property, plant and equipment | **313** | 32 |
| Fair value gain/(loss) on other investments | **81** | (1,419) |
| Amortisation of negative goodwill | **—** | 316 |
| **and after charging:** | | |
| Amortisation | | |
| Quarry site development | **932** | 871 |
| Overburden removal costs | **7,796** | 8,208 |
| Quarry site improvements | **7,560** | 7,560 |
| Leasehold land and land use rights | **3,019** | 2,478 |
| Depreciation | **36,440** | 36,344 |
| Operating lease rental for land and buildings | **12,314** | 13,040 |
| Royalty | **2,792** | 1,979 |
| Loss on disposal of listed investments | **—** | 2,893 |
| Cost of inventories sold | **487,076** | 538,639 |

## 5. TAXATION

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Current taxation | | |
| Hong Kong profits tax | **78** | 42 |
| Mainland China profits tax | **202** | 1,270 |
| | **280** | 1,312 |

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits for the period after setting off available taxation losses brought forward. Taxation assessable on profits generated outside Hong Kong has been provided at the rates of taxation prevailing in the countries in which those profits arose.

## 5. TAXATION (CONT'D)

Share of taxation of associated companies and jointly controlled entities for the six months ended 30th June 2005 are HK$184,000 (2004: HK$443,000) and HK$274,000 (2004: HK$279,000) respectively and are included in the profit and loss statement as share of profits less losses of associated companies and jointly controlled entities.

## 6. INTERIM DIVIDEND

The Board of Directors has resolved not to declare any interim dividend for the six months ended 30th June 2005 (2004: an interim scrip dividend with cash option of 1 cent per share, totalling HK$12,817,000).

## 7. EARNINGS PER SHARE

| | **2005** | 2004 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit for calculation of basic and diluted earnings per share | **14,306** | 11,283 |

| | **Number of shares** | |
|---|---|---|
| | **2005** | 2004 |
| Weighted average number of shares for calculating basic earnings per share | **1,345,913,125** | 1,265,589,484 |
| Effect of dilutive potential ordinary shares | | |
| Share options | **18,178,485** | 16,104,172 |
| Weighted average number of shares for calculating diluted earnings per share | **1,364,091,610** | 1,281,693,656 |

## 8. CAPITAL EXPENDITURE

For the six months ended 30th June 2005, the Group incurred HK$24.3 million (2004: HK$38.3 million) on property, plant and equipment and HK$0.3 million (2004: HK$3.8 million) on deferred expenditure. The Group has disposed of property, plant and equipment with a net book amount of HK$1.2 million (2004: HK$2.2 million).

## 9. OTHER NON-CURRENT ASSETS

| | **30th June 2005** **HK$'000** | 31st December 2004 HK$'000 |
|---|---|---|
| Deferred expenditure | | |
| Overburden removal costs | **92,129** | 99,679 |
| Quarry site development | **13,224** | 14,073 |
| | **105,353** | 113,752 |
| Quarry site improvements | **128,490** | 136,050 |
| Deferred receivable | **6,265** | 6,706 |
| | **240,108** | 256,508 |

## 10. DEBTORS AND PREPAYMENTS

| | **30th June 2005** **HK$'000** | 31st December 2004 HK$'000 |
|---|---|---|
| Trade debtors | **480,453** | 455,380 |
| Amounts due from jointly controlled entities | **191,224** | 133,893 |
| Amount due from a minority shareholder | **1,948** | — |
| Other receivables | **26,181** | 32,973 |
| Prepayments | **62,397** | 59,251 |
| | **762,203** | 681,497 |

The Group has established credit policies, which follow local industry standard. The Group normally allows an approved credit period ranging from 30 to 60 days for customers in Hong Kong and 120 to 180 days for customers in Mainland China. These are subject to periodic review by management.

## 10. DEBTORS AND PREPAYMENTS (CONT'D)

The aging analysis of the Group's trade debtors based on the date of the invoices and net of provision for bad and doubtful debts is as follows:

| | **30th June 2005** *HK$'000* | 31st December 2004 *HK$'000* |
|---|---|---|
| Within one month | **94,195** | 124,282 |
| Two to three months | **141,104** | 153,943 |
| Four to six months | **81,028** | 88,658 |
| Over six months | **164,126** | 88,497 |
| | **480,453** | 455,380 |

## 11. CREDITORS AND ACCRUALS

| | **30th June 2005** *HK$'000* | 31st December 2004 *HK$'000* |
|---|---|---|
| Trade creditors | **194,253** | 193,859 |
| Amounts due to minority shareholders | **89,464** | 103,334 |
| Other creditors | **46,076** | 55,773 |
| Accrued operating expenses | **99,024** | 74,174 |
| Deposits received | **6,634** | 5,285 |
| | **435,451** | 432,425 |

The aging analysis of the Group's trade creditors based on the date of the invoices is as follows:

| | **30th June 2005** *HK$'000* | 31st December 2004 *HK$'000* |
|---|---|---|
| Within one month | **61,973** | 80,834 |
| Two to three months | **56,825** | 62,659 |
| Four to six months | **32,424** | 26,502 |
| Over six months | **43,031** | 23,864 |
| | **194,253** | 193,859 |

## 12. SHARE CAPITAL

| | Ordinary shares of HK$0.10 each Number of shares | *HK$'000* |
|---|---|---|
| **Authorised:** | | |
| At 1st January 2004, 2005 and 30th June 2004, 2005 | **3,888,000,000** | **388,800** |
| **Issued and fully paid:** | | |
| At 1st January 2004 | **1,258,934,651** | **125,893** |
| Exercise of share options *(note a)* | **12,094,000** | **1,210** |
| At 30th June 2004 | **1,271,028,651** | **127,103** |
| At 1st January 2005 | **1,296,475,563** | **129,648** |
| Exercise of share options *(note a)* | **1,390,000** | **139** |
| Issue of new shares *(note b)* | **146,000,000** | **14,600** |
| At 30th June 2005 | **1,443,865,563** | **144,387** |

(a) The Company operates a share option scheme under which options to subscribe for shares in the Company are granted to selected executives. During the period, no new options were granted (2004: nil) and options for 1,390,000 shares (2004: 12,094,000 shares) were exercised. At 30th June 2005, outstanding options granted under the scheme are as follows:

| | | Number of share options | |
|---|---|---|---|
| **Exercise period** | **Exercise price per share** *HK$* | **30th June 2005** | 31st December 2004 |
| 20th May 1999 to 19th May 2008 | 0.5333 | **4,532,000** | 5,002,000 |
| 30th December 2000 to 29th December 2009 | 0.5216 | **6,498,000** | 6,914,000 |
| 1st March 2004 to 28th February 2013 | 0.5140 | **7,922,000** | 8,426,000 |
| | | **18,952,000** | 20,342,000 |

## 12. SHARE CAPITAL (CONT'D)

(b) On 4th May 2005, the Company issued 146,000,000 new shares of HK$0.10 each at the issue price of HK$8 per share for cash. Net proceeds from the placing are intended to be used to fund obligations of the Company for the acquisition of Galaxy Casino, S.A. (note 16). All new shares rank pari passu with the existing shares.

## 13. BORROWINGS

| | **30th June 2005** ***HK$'000*** | 31st December 2004 *HK$'000* |
|---|---|---|
| Long-term bank loans, unsecured | **180,970** | 321,580 |
| Short-term bank loans | | |
| Secured | **157,400** | — |
| Unsecured | **50,000** | — |
| | **388,370** | 321,580 |
| Current portion included in current liabilities | **(247,400)** | (10,000) |
| | **140,970** | 311,580 |

## 14. CAPITAL COMMITMENTS

| | **30th June 2005** ***HK$'000*** | 31st December 2004 *HK$'000* |
|---|---|---|
| Authorised but not contracted for | **—** | — |
| Contracted but not provided for | **45,471** | 75,198 |

In addition to the above, the Group has entered into an agreement dated 14th March 2005 for the acquisition of Galaxy Casino, S.A. (note 16).

## 15. BUSINESS COMBINATIONS

In May 2005, the Group acquired 51% equity interest in a subsidiary carrying on construction materials business. Details of net assets acquired and goodwill arising are as follows:

| | *HK$'000* |
|---|---|
| Cash consideration | **17,000** |
| Fair value of net assets acquired | **383** |
| Goodwill | **16,617** |

The goodwill is attributable to the future profit prospects of the acquired business. The assets and liabilities arising from the acquisition of the subsidiary are as follows:

| | **Fair value** *HK$'000* | **Acquiree's carrying amount** *HK$'000* |
|---|---|---|
| Plant and equipments | **166** | **166** |
| Other receivables | **314** | **314** |
| Prepayments and deposits | **133** | **133** |
| Cash and bank balances | **310** | **310** |
| Other payable | **(172)** | **(172)** |
| Net assets | **751** | **751** |
| Minority interests | **(368)** | |
| Net asset acquired | **383** | |

## 16. POST BALANCE SHEET EVENT

On 22nd July 2005, the Group completed the acquisition of 88.1% of the voting shares carrying 97.9% of the economic interest in Galaxy Casino, S.A. at an aggregate consideration of HK$18,405 million. The consideration was satisfied by the issue of 1,840,519,798 new shares of the Company, unsecured fixed rate notes and cash. As a result, K. Wah International Holdings Limited ceased to be the ultimate holding company of the Company. Details of the acquisition are set out in the circular of the Company dated 30th June 2005.