

Acquisition of Gaming Business

On 22nd July 2005, the acquisition (“Acquisition”) of 88.1% of the voting shares carrying 97.9% of the economic interest in Galaxy Casino, S.A. (“Galaxy”) by Canton Treasure Group Ltd., a wholly owned subsidiary of the Company, pursuant to an acquisition agreement dated 14th March 2005 as amended by two supplemental agreements dated 1st April 2005 and 31st May 2005, was completed. As the Acquisition was completed after the interim period end, the results of Galaxy and its subsidiaries were not included in the interim results of the Group for the six months ended 30th June 2005.

The purchase price was HK\$18,405,198,023, which was satisfied (i) as to about 80% by the allotment and issue of 1,840,519,798 new shares of the Company to the vendors credited as fully paid at HK\$8 each and (ii) as to about 20% by the issue to the vendors of HK\$2,544,239,603 principal amount of unsecured fixed rate notes and the payment in cash to the vendors of HK\$1,136,800,000. Such cash payment was funded by the cash proceeds of approximately HK\$1,136,800,000 raised from a top-up placement announced on 21st April 2005 in which 146,000,000 new shares of the Company were placed to independent investors at HK\$8 per share.

The Acquisition constituted a connected transaction and a very substantial acquisition for the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and was duly approved by the independent shareholders of the Company at the extraordinary general meeting duly convened and held on 19th July 2005.

Further details of the Acquisition were included in the circular of the Company dated 30th June 2005 issued to its shareholders.

Galaxy holds one of the only three gaming concessions awarded by the Macau government to operate casinos in Macau. With Galaxy already operating the Galaxy Casino at Waldo Hotel and the development of its Galaxy StarWorld, Galaxy Cotai Mega Resort, Galaxy Casino at Cotai City Club and Galaxy Casino at Rio Hotel projects all underway, Galaxy is well positioned to take advantage of the fast growing Macau gaming market. The Company, which is interested in 97.9% of the economic interest in Galaxy, is expected to benefit from Macau’s prosperous tourism, hospitality and gaming industry.

Adoption of New and Revised Financial Reporting Standards

This is the first half year's financial report of the Group following the adopting of the new Hong Kong Financial Reporting Standards effective 1st January 2005. The changes in accounting policies do not have any material effect on the financial statements under review other than certain presentation changes with the comparative figures being realigned.

Review of Operation

The financial results under this review were contributed entirely by the construction materials business of the Group. Galaxy's financial results were not included.

Turnover and profit attributable to shareholders for the six months ended 30th June 2005 was HK\$540 million and HK\$14 million as compared to HK\$617 million and HK\$11 million (as restated) respectively for the corresponding period last year. The Group's turnover was similar to that of last year while the profit attributable to shareholders increased by approximately 30% over last year. The Board of Directors has resolved not to pay any interim dividend for the six months ended 30th June 2005 because under the terms of the unsecured fixed rate notes issued as part of the purchase price for the Acquisition, no dividend can be declared and/or paid by the Company before they are fully redeemed.

The economy of Hong Kong has continued to improve with the tourism and retail sectors registered an encouraging growth for the first half of the year. Although certain sectors, in particular the construction industry, have yet to experience similar pace of growth, positive signs of gradual improvements are developing. This is evidenced by a number of sizeable infrastructure projects in the pipeline and the revival of property development market driven by the improving economy in Hong Kong. Seizing such valuable opportunity, the Group has, through acquisition, expanded further its construction materials business in Hong Kong. The acquisition has broadened our customer base and at the same time provides us with good synergy effect. The Group is now well positioned to take full advantage from the upturn of construction materials market in the near future. To further expand our operation, the Group will continue to explore suitable investment projects both in Hong Kong and the Pan Pearl River Delta area.

Review of Operation (Cont'd)

In Mainland, the introduction of austerity measures by the central government last year has gradually restored the overheated economy to a much healthier level. Although this will have a slight adverse effect on the demand for construction materials in short term, it has laid a solid foundation for a sustainable growth in future. The Group's joint venture projects with Beijing Shougang Group, Yunnan Kunming Steel Group, Anhui Magang Group and Guangdong Shaogang Group for manufacture and sale of slag have all commenced operation during the period. The products were well received by customers and the joint ventures have made good profit contribution to the Group. The Group's strategy of investing in high entry barrier products has proved to be very successful. The market demand for slag remains high and it is expected that all these joint ventures will continue to provide stable profit contribution to the Group.

As for the technology investment, the balanced investment portfolio maintained by the Group has begun to deliver result during the period. The Group has successful liquidated part of the investment during the period making good profit contribution to the Group. A balanced portfolio will continue to be maintained for a long term benefit of the Group.

Liquidity and Financial Resources

The financial position of the Group has remained strong during the period. The shareholders' funds at 30th June 2005 was HK\$2,564 million, an increase of approximately 80% over the balance at 31st December 2004 of HK\$1,425 million (as restated) and the Group's total assets employed also increased to HK\$3,603 million as compared to HK\$2,415 million (as restated) at 31st December 2004.

As announced in April, 2005, the Company, through a top-up placement of shares, has issued 146 million new shares at HK\$8 per share and has generated cash proceeds of approximately HK\$1,137 million. Such cash proceeds were applied to fund the Acquisition in July, 2005.

The Group's liquidity position remains strong and the Group is confident that sufficient resources could be secured to meet its commitments, working capital requirements and future assets acquisitions.

Gearing Ratio

The gearing ratio, defined as the ratio of total loans outstanding less cash balances to total assets, was at a debt free level at 30th June 2005. At 31st December 2004, the gearing ratio was at a low level of 7%.

28 Management Discussion and Analysis

Treasury Policy

The Group continues to adopt a conservative treasury policy with all bank deposits in either Hong Kong Dollars, United States Dollars or in the local currencies of the operating subsidiaries, keeping a minimum exposure to foreign exchange risks. All of the Group's borrowings are in either Hong Kong Dollars or Renminbi. Forward foreign exchange contracts are utilised when suitable opportunities arise and when considered appropriate, to hedge against foreign exchange exposure. The Group has not engaged in the use of other derivative products, which are considered not necessary for the Group's treasury management activities.

Charges on Group Assets

Land and buildings with net book values of HK\$223,959,000 (31st December 2004: HK\$226,628,000) have been pledged to secure banking facilities.

Contingent Liabilities

The Company has executed guarantees in favour of banks in respect of facilities granted to subsidiaries amounting to HK\$290,220,000 (31st December 2004: HK\$289,804,000). At 30th June 2005, the facilities utilised amounted to HK\$108,571,000 (31st December 2004: HK\$104,792,000).

Employees and Remuneration Policy

The Group, excluding associated companies and jointly controlled entities, employs around 2,195 employees in Hong Kong and Mainland China. Employee costs, excluding Directors' emoluments, amounted to HK\$74 million.

The Group recruits and promotes individuals based on their competencies, merit and development potential and ensures remuneration packages are competitive. The Group has implemented a share option scheme for executives from 1991 following approval by its shareholders for the purpose of providing competitive package and long term retention of management talents. Likewise in Mainland China, employees' remuneration is commensurate with market levels with emphasis on provision of training and development opportunities.