



K. WAH CONSTRUCTION MATERIALS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 27)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE 2005

INTERIM RESULTS

The Directors of K. Wah Construction Materials Limited (the “Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30th June 2005 as follows:

The Group’s turnover for the six months ended 30th June 2005 was HK\$539,572,000 representing a decrease of HK\$77,906,000 over the corresponding period last year.

The Group’s unaudited profit attributable to shareholders for the six months ended 30th June 2005 amounted to HK\$14,306,000 representing an increase of HK\$3,023,000 over the corresponding period last year.

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).

CONSOLIDATED PROFIT AND LOSS STATEMENT (Unaudited)*For The Six Months Ended 30th June 2005*

		2005	<i>Restated</i>
	<i>Note</i>	HK\$'000	2004
			<i>HK\$'000</i>
Turnover	2	539,572	617,478
Cost of sales		<u>(530,800)</u>	<u>(590,082)</u>
Gross profit		8,772	27,396
Other revenues		26,728	11,819
Other operating income		4,718	4,496
Administrative expenses		(30,386)	(27,405)
Other operating expenses		<u>(534)</u>	<u>(5,416)</u>
Operating profit	2 & 3	9,298	10,890
Finance costs		(5,998)	(3,808)
Share of profits less losses of			
Jointly controlled entities		7,945	4,286
Associated companies		<u>1,492</u>	<u>865</u>
Profit before taxation		12,737	12,233
Taxation	4	<u>(280)</u>	<u>(1,312)</u>
Profit for the period		<u>12,457</u>	<u>10,921</u>
Attributable to:			
Shareholders of the Company		14,306	11,283
Minority interests		<u>(1,849)</u>	<u>(362)</u>
		<u>12,457</u>	<u>10,921</u>
Interim dividend	5	<u>—</u>	<u>12,817</u>
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share	6		
Basic		1.06	0.89
Diluted		<u>1.05</u>	<u>0.88</u>

CONSOLIDATED BALANCE SHEET (Unaudited)*As at 30th June 2005*

		<i>Restated</i>
	30th June	31st December
	2005	2004
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS		
Non-current assets		
Property, plant and equipment	453,525	466,883
Investment properties	65,500	65,500
Leasehold land and land use rights	251,626	254,645
Goodwill	16,617	—
Jointly controlled entities	256,191	248,243
Associated companies	20,142	18,650
Available-for-sale financial assets	92,054	152,375
Other non-current assets	<u>240,108</u>	<u>256,508</u>
	<u>1,395,763</u>	<u>1,462,804</u>
Current assets		
Inventories	94,047	93,175
Debtors and prepayments	762,203	681,497
Taxation recoverable	1,145	1,938
Other investments	69,534	4,217
Cash and bank balances	<u>1,280,363</u>	<u>170,952</u>
	2,207,292	951,779
	<u>3,603,055</u>	<u>2,414,583</u>
Total assets		
EQUITY		
Share capital	144,387	129,648
Reserves	<u>2,419,266</u>	<u>1,295,616</u>
Shareholders' funds	2,563,653	1,425,264
Minority interests	<u>37,544</u>	<u>39,025</u>
Total equity	<u>2,601,197</u>	<u>1,464,289</u>

		30th June	<i>Restated</i> 31st December
		2005	2004
	<i>Note</i>	HK\$'000	HK\$'000
LIABILITIES			
Non-current liabilities			
Borrowings		140,970	311,580
Deferred tax liabilities		13,884	13,884
Negative goodwill		—	136
Provisions		163,347	180,873
		318,201	506,473
Current liabilities			
Creditors and accruals	8	435,451	432,425
Current portion of borrowings		247,400	10,000
Taxation payable		806	1,396
		683,657	443,821
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Total liabilities		1,001,858	950,294
Total equity and liabilities		3,603,055	2,414,583

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of Preparation

The interim financial information have 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.

2. Segment Information#

The Group is principally engaged in manufacture, sale and distribution of construction materials.

	Hong Kong <i>HK\$'000</i>	Mainland China <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six-months ended 30th June 2005			
Turnover	235,831	303,741	539,572
Other revenues	<u>25,616</u>	<u>1,112</u>	<u>26,728</u>
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	—	<u>1,492</u>
Profit before taxation			12,737
Taxation			<u>(280)</u>
Profit for the period			<u><u>12,457</u></u>
	Hong Kong <i>HK\$'000</i>	Mainland China <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six-months ended 30th June 2004			
Turnover	219,610	397,868	617,478
Other revenues	<u>11,567</u>	<u>252</u>	<u>11,819</u>
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	—	<u>865</u>
Profit before taxation			12,233
Taxation			<u>(1,312)</u>
Profit for the period			<u><u>10,921</u></u>

3. Operating Profit

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
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	<u>—</u>	<u>316</u>
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	<u>487,076</u>	<u>538,639</u>

4. Taxation

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Current taxation		
Hong Kong profits tax	78	42
Mainland China profits tax	<u>202</u>	<u>1,270</u>
	<u>280</u>	<u>1,312</u>

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.

Share of taxation of associated companies and jointly controlled entities for the six months ended 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 entities.

5. 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).

6. Earnings Per Share

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Profit for calculation of basic and diluted earnings per share	<u>14,306</u>	<u>11,283</u>
	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	<u>18,178,485</u>	<u>16,104,172</u>
Weighted average number of shares for calculating diluted earnings per share	<u>1,364,091,610</u>	<u>1,281,693,656</u>

7. 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	<u>62,397</u>	<u>59,251</u>
	<u>762,203</u>	<u>681,497</u>

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.

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	<u>164,126</u>	<u>88,497</u>
	<u>480,453</u>	<u>455,380</u>

8. 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	<u>6,634</u>	<u>5,285</u>
	<u>435,451</u>	<u>432,425</u>

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	<u>43,031</u>	<u>23,864</u>
	<u>194,253</u>	<u>193,859</u>

MANAGEMENT DISCUSSION AND ANALYSIS

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.

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 successfully 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.

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%.

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.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the six months ended 30th June 2005. Neither the Company nor any of its subsidiary companies have purchased or sold any of the Company's shares during the six months ended 30th June 2005.

AUDIT COMMITTEE

Having been reviewed by the Company's Auditors, PricewaterhouseCoopers, the Group's interim financial information for the six months ended 30th June 2005 was reviewed by the Audit Committee. Regular meetings have been held by the Audit Committee which meets at least twice each year.

CORPORATE GOVERNANCE

The Company has, during the six months ended 30th June 2005, complied with the code provisions (with the exception of Code Provision C.2 on internal controls) set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Exchange") except for the following deviations:

a. Code Provision A.4.2

The Chairman of the Board and Managing Director are not subject to retirement by rotation. A special resolution will be proposed to amend the Articles of Association of the Company at the annual general meeting to be held in 2006 so that every Director (including the Chairman of the Board and Managing Director) shall be subject to retirement by rotation at least once every three years.

b. Code Provision A.5.4

Written guidelines in respect of dealings by relevant employees in the securities of the Company were established by the Company on 17th August 2005.

c. Code Provision B.1.1

The Company is in the process of establishing a Remuneration Committee with appropriate composition and terms of reference.

d. Code Provision C.3.3

On 14th September 2005, the terms of reference of the Audit Committee of the Company was revised to include the duties as set out in this code provision.

e. Code Provision E.1.2

The Chairman did not attend the annual general meeting of the Company held on 28th April 2005. Mr. Francis Lui Yiu Tung, the Deputy Chairman of the Company, took the chair pursuant to the Articles of Association of the Company.

PUBLICATION OF FURTHER INFORMATION

The Interim Report 2005 of the Company containing all information required by the Listing Rules will be published on the respective websites of the Company and the Exchange in due course. The Group's unaudited interim financial statements have been reviewed by the Company's auditors PricewaterhouseCoopers, and a report of their review will be included in the Interim Report to Shareholders.

DIRECTORS

As at the date of this announcement, the executive directors are Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung, Mr. Chan Kai Nang, Mr. Joseph Chee Ying Keung, Mr. William Lo Chi Chung and Ms. Paddy Tang Lui Wai Yu; the non-executive director is Mr. Moses Cheng Mo Chi; and the independent non-executive directors are Dr. Charles Cheung Wai Bun, Mr. James Ross Ancell and Dr. William Yip Shue Lam.

By Order of the Board
Kitty Chan Lai Kit
Company Secretary

Hong Kong, 14th September 2005

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Please also refer to the published version of this announcement in (South China Morning Post)