

Report of the Directors

Directors' rights to acquire shares

The Company has a share option scheme under which the directors may grant options to employees of the Group, including directors, to subscribe up to 10 per cent. of the nominal amount of the issued share capital of the Company. Details of options granted to the directors under this scheme and outstanding as at 31 December 2000 are as follows:

	Number of shares in respect of options granted			Outstanding at 31 December 2000
	Outstanding at 31 December 1999	Granted during the year	Exercised during the year	
Koo Cheng Yun, Leslie	6,000,000	7,000,000	—	13,000,000
Wu Yih Chin	3,000,000	4,500,000	1,200,000	6,300,000
Tsao Jas Yee, James	—	1,000,000	—	1,000,000
Chiang Cheng Hsiung	4,000,000	3,000,000	—	7,000,000
Chen Chi Hsiung	2,000,000	2,500,000	—	4,500,000
	15,000,000	18,000,000	1,200,000	31,800,000

All of the above share options were granted pursuant to the Company's share option scheme as detailed in note 23 to the financial statements. Share options granted during the period are exercisable within the period from 11 October 2000 to 10 April 2005, both days inclusive, at an exercise price of HK\$1.6504 per share. The share options granted in prior years and remained outstanding are exercisable within the period from 1 May 1998 to 30 October 2002, both days inclusive, at an exercise price of HK\$1.0192 per share.

Apart from the foregoing, at no time during the year was the Company or any of its holding companies, fellow subsidiaries and subsidiaries a party to any arrangement to enable the directors of the Company, their respective spouse or children under 18 years of age, to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Directors' interests in contracts

Except as further detailed in note 28 to the financial statements, no director had a significant beneficial interest, either direct or indirect, in any material contract to the business of the Group to which the Company or any of its holding companies, fellow subsidiaries and subsidiaries was a party during the year.

Report of the Directors

Substantial shareholders

As at 31 December 2000, the following interests of 10 per cent. or more in the issued share capital of the Company were recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance:

Name	Number of shares	Percentage of issued shares
TCC International Limited	486,440,000	60.81%
Taiwan Cement Corporation*	486,440,000	60.81%

* Taiwan Cement Corporation is interested in the shares of the Company by virtue of its beneficial ownership of the entire issued share capital of TCC International Limited.

Save as disclosed above, the directors were not aware of any person who was, directly or indirectly, interested in 10 per cent. or more of the issued share capital of the Company as at 31 December 2000 that was required to be recorded under Section 16(1) of the SDI Ordinance.

Post balance sheet event

Details of the significant post balance sheet event of the Group are set out in note 30 to the financial statements.

Retirement scheme and costs

The Group operates a defined contribution retirement benefits scheme (the "Scheme") for all qualified employees based in Hong Kong. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The retirement scheme contributions represent contributions payable to the fund by the Group at rates specified in the rules of the Scheme. When employees leave the Scheme prior to the full vesting of the employer contributions, the contributions forfeited in respect of these employees are used to fund employer contributions in respect of other employees remaining in the Scheme. Under the foregoing arrangement, there were no forfeited contributions utilised to reduce the existing level of contributions either during one year, or unutilised forfeited contributions as at the balance sheet date. The contributions to the Scheme charged to the profit and loss account for the year were approximately HK\$488,000.

On 1 December 2000, the Scheme was terminated with all the underlying assets of the Scheme transferred to the Mandatory Provident Fund ("MPF") with effect from 13 January 2001. Since then, the Group is required to contribute to the MPF based on the rates applicable to the respective monthly salaries of the employees based in Hong Kong in accordance with government regulations.

Employees in a subsidiary in Mainland China are members of the Central Pension Scheme operated by the Chinese government. The subsidiary is required to contribute a certain percentage of their covered payroll to the Central Pension Scheme to fund the benefits. The only obligation for the Group with respect to the Central Pension Scheme is the associated required contributions under the Central Pension Scheme, which are charged to the profit and loss account in the year to which they relate.

Report of the Directors

Major customers and suppliers

During the year under review, sales to the Group's largest customer and its five largest customers accounted for approximately 16.1 and 39.4 per cent. of the Group's turnover, respectively.

Purchases from the Group's largest supplier and its five largest suppliers accounted for approximately 85.9 and 94.7 per cent. of the Group's total purchases, respectively.

Messrs. Koo Cheng Yun, Leslie, Wu Yih Chin, Chiang Cheng Hsiung, Chen Chi Hsiung, and Liao Poon Huai, Donald, directors of the Company, had direct or indirect interests in Taiwan Cement Corporation, the Group's largest supplier. The Group's largest customer is an associate of the Group.

Apart from the above and as far as the directors are aware, none of the directors of the Company or any of their associates or any shareholders, which to the knowledge of the directors own more than 5 per cent. of the Company's share capital, had any interest in any of the Group's five largest customers and suppliers during the year.

Purchase, sale and redemption of listed securities

During the year, the Company repurchased certain of its shares on The Stock Exchange of Hong Kong Limited and these shares were subsequently cancelled by the Company. The directors considered that the repurchase of shares will benefit shareholders by enhancing the net assets and earnings per share of the Group. Details of these repurchases are set out in note 23 to the financial statements.

Save as disclosed above, neither the Company nor any of the subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year.

Related party and connected transactions

Related party transactions, which fall within the definition stipulated in the Hong Kong Statement of Standard Accounting Practice 2.120 ("SSAP 20") on "Related Party Disclosures", undertaken by the Group during the year are set out in note 28 to the financial statements. The transactions included in note 28(A) items (i) to (iii) and note 28(B) to the financial statements, also constitute connected transactions during the year as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The directors have reviewed the following connected transactions under which a conditional waiver from strict compliance with the connected transaction requirements as set out in Chapter 14 of the Listing Rules has been obtained:

- (i) supply of cement by the Company's ultimate holding company;
- (ii) leasing of a site on Tsing Yi Island, Hong Kong, from a fellow subsidiary of the Company;
- (iii) leasing of a site in Tondo, Manila, the Philippines, from an associate of the Company's ultimate holding company;

Report of the Directors

Related party and connected transactions *(continued)*

- (iv) supply of clinker and cement by a minority shareholder of a subsidiary;
- (v) supply of woven bags by an associate of a minority shareholder of a subsidiary; and
- (vi) sale of slag powder to a minority shareholder of a subsidiary.

The directors, including the independent non-executive directors, confirmed that these connected transactions have been approved by the board of directors and in their opinion were:

- (a) conducted on normal commercial terms and in the ordinary and usual course of business of the Group;
- (b) fair and reasonable so far as the shareholders of the Company are concerned;
- (c) entered into either in accordance with the terms of the agreements governing such transactions or, where there are no such agreements, on terms that are no less favourable than those available to or from independent third parties; and
- (d) within an annual limit of 60 per cent. of the audited consolidated turnover of the Group for the year in respect of the transaction (i) stated above.
- (e) with an annual limit of 75 per cent. of the audited turnover of the subsidiary for the year/period in respect of the transaction (iv) stated above;
- (f) with an annual limit of RMB10 million in respect of the transaction (v) stated above; and
- (g) with an annual limit of 50 per cent. of the audited turnover of the subsidiary for the year/period in respect of the transaction (vi) stated above.

Details of the connected transactions set out in (i) to (iii) above, which also constituted related party transactions, are set out in note 28(A) to the financial statements.

Details of the connected transactions set out in (iv) to (vi) above during the year are summarised below:

	<i>Note</i>	<i>HK\$'000</i>
Supply of clinker and cement by a minority shareholder of a subsidiary	(I)	5,056
Supply of woven bags by an associate of the minority shareholder	(II)	120

Report of the Directors

Related party and connected transactions *(continued)*

Note:

- (I) Purchase of clinker and cement from the minority shareholder accounted for less than 75 per cent. of the audited turnover of the subsidiary for the period from effective date of the supply agreement governing such transaction (the "Supply Agreement I") to 31 December 2000. The weighted average price per tonne of clinker and cement charged by this minority shareholder did not exceed the weighted average price in respect of its supply of clinker and cement to other customers in Wuhu, where the Group's subsidiary was located (the "Benchmark Price I"). The Benchmark Price I was certified by the auditors of the minority shareholder. In accordance with the Supply Agreement I, the excess may be used to set off against the amount that the Group's subsidiary is required to pay to the minority shareholder for subsequent supplies.
- (II) Purchase of woven bags from an associate of the minority shareholder did not exceed the cap limit of RMB10 million for the period from effective date of the supply agreement governing such transaction (the "Supply Agreement II") to 31 December 2000. The weighted average price per tonne of woven bags charged by this connected person did not exceed the weighted average price in respect of its supply of woven bags to other customers in Wuhu, where the Group's subsidiary was located (the "Benchmark Price II"). The Benchmark Price II was also certified by the auditors of the minority shareholder. In accordance with the Supply Agreement II, the excess may be used to set off against the amount that the Group's subsidiary is required to pay to the associate of the minority shareholder for subsequent supplies.
- (III) During the year, the Group did not sell any slag powder to the minority shareholder of the subsidiary.

The basis of the pricing policies for these three types of connected transactions is set out in greater detail in a circular to the shareholders of the Company dated 26 October 2000.

In addition, on 10 January 2000, the Company, through its subsidiaries, entered into conditional acquisition agreements with each of the fourteen shareholders of KG Telecommunications Co., Ltd. ("KG Telecom") for the acquisition of 155,600,000 shares, equivalent to approximately 10 per cent. equity interests in aggregate of KG Telecom (the "Acquisition"). KG Telecom was incorporated in Taiwan in 1997 and is engaged in the provision of cellular phone services in Taiwan. The total consideration for the Acquisition amounted to approximately HK\$1,578,000,000 and was partially financed as to approximately HK\$1,121,875,000 by the net proceeds from a subscription of 327,000,000 shares of the Company at HK\$3.50 per share (the "Subscription") by its controlling shareholder, TCC International Limited ("TCCI"), which placed 237,000,000 shares at the same subscription price to other third party investors.

Report of the Directors

Related party and connected transactions *(continued)*

Part of the 10 per cent. equity interest in KG Telecom was acquired by the Group from an associate (as defined under the Listing Rules) of Mr. Koo Cheng Yun, Leslie, a director of the Company, and associates of TCCI. Details of the fourteen vendors and the number of shares acquired from these vendors by the Group are summarised below:

Name	Number of KG Telecom shares
Eight subsidiaries of TCC *	38,600,000
KOOS Development Corporation	40,000,000
China Trust Investment Co. Ltd.	17,000,000
China Synthetic Rubber Corporation and two of its subsidiaries (CS Development & Investment Corporation and Consolidated Resource Company)	50,000,000
China Life Insurance Company Ltd.	10,000,000
Total	155,600,000

* They are TCC Investment Corporation, Union Cement Traders Inc., Taiwan Cement Engineering Corporation, Ta-Ho Maritime Corporation, Kuan-Ho Refractories Industry Corporation, Prosperity Dielectrics Co. Ltd., Taiwan Transport & Storage Corporation and TCC Information Systems Corporation.

For the purpose of the Listing Rules, these eight subsidiaries of TCC are connected persons in relation to the Company by virtue of TCC's equity interests in the Company. KOOS Development Corporation is a connected person in relation to the Company by virtue of a director's interest therein as Mr. Koo Cheng Yun, Leslie is indirectly interested in more than 35% of the equity capital of KOOS Development Corporation. The other five vendors are not connected persons in relation to the Company for the purposes of the Listing Rules.

The Acquisition constituted a very substantial acquisition and both the Acquisition and the Subscription constituted connected transactions under the Listing Rules. In addition, the acquisition of shares from the eight subsidiaries of TCC and KOOS Development Corporation also constituted related party transactions under SSAP 20 as set out in note 28(B) to the financial statements. A circular incorporating details of the Acquisition and the Subscription was dispatched to the Company's shareholders on 16 February 2000.

Pursuant to the resolution passed at an extraordinary general meeting of the Company held on 6 March 2000, the Acquisition was approved by the Company's independent shareholders. The Acquisition was completed on 29 April 2000.

Report of the Directors

Code of Best Practice

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited during the year and up to the date of this report. Independent non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's articles of association.

The Company, in 1999, established an Audit Committee consisting of three non-executive directors, of which two are independent non-executive directors, in accordance with paragraph 14 of the Code of Best Practice. The Committee held two meetings during the year.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the board

Koo Cheng Yun, Leslie

Chairman

Hong Kong

2 April 2001