# Notes to the Financial Statements

31 December 2000

## 1. Corporate Information

The principal activity of the Company is investment holding.

The principal activities of the Group consisted of the import and distribution of cement in Hong Kong and the Philippines, the manufacturing and distribution of cement in the other areas of the People's Republic of China ("the Mainland China"). Through its associates, the Group is also engaged in the production and distribution of ready-mixed concrete in Hong Kong, the Mainland China and Brunei, and the provision of cellular telecommunication services in Taiwan.

In the opinion of the directors, Taiwan Cement Corporation ("TCC"), a company incorporated and was shares are listed in Taiwan, is the Company's ultimate holding company.

The amount due to the ultimate holding company and a fellow subsidiary as at 31 December 1999 was unsecured, interest-free and had no fixed terms of repayment.

## 2. Summary of significant accounting policies

### Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of certain fixed assets and investments as further explained below.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2000, together with the Group's share of the results for the year and post-acquisition reserves of its associates as set out below. The results of subsidiaries and associates acquired or disposed of during the year are consolidated with reference to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

### Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital, or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

## 2. Summary of significant accounting policies *(continued)*

### Associates

An associate is a company, not being a subsidiary or a joint venture, in which the Group has a long term interest and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for diminutions in values, other than temporary in nature, deemed necessary by the directors.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Group's interests in associates are stated at cost less any provisions for permanent diminutions in values, other than temporary in nature, deemed necessary by the directors.

### Goodwill

Goodwill arising on consolidation of subsidiaries and on acquisition of associates represents the excess purchase consideration paid for subsidiaries and associates over the fair values ascribed to the net underlying assets acquired at the date of acquisition.

Goodwill arising on acquisition of a subsidiary, Koning Concrete Limited, is amortised on the straight-line basis over ten years. Goodwill arising on acquisition of a subsidiary, OneMore Inc., has been eliminated against reserves at the time of acquisition.

Goodwill arising from the acquisition of associates, except for KG Telecommunications Company Limited, are amortised on the straight-line basis over ten years and the unamortised portion is included as part of the Group's interests in associates. Goodwill arising on the acquisition of KG Telecommunications Company Limited has been eliminated against reserves in the year of acquisition.

On disposal of subsidiaries or associates, the relevant portion of attributable goodwill which remains unamortised is accounted for in arriving at the gain or loss on disposal.

### Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance costs, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of the fixed asset.

# Notes to the Financial Statements

31 December 2000

## 2. Summary of significant accounting policies *(continued)*

### Fixed assets and depreciation *(continued)*

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life with a residual value of 1%. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Leasehold land | Over the period of land use rights |
| Buildings | 4% |
| Plant and machinery | 10% - 20% |
| Furniture, fixtures and office equipment | 20% - 33 $^{1}/_{3}$% |
| Motor vehicles | 20% |
| Lighters | 10% |

Construction in progress represents the cost of new factory buildings under construction and the cost of plant and machinery acquired pending installation. No depreciation is provided on construction in progress until it is completed and put into use. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Changes in values of fixed assets resulting from revaluations are dealt with, on an individual asset basis, as movements in the asset revaluation reserve. Deficits arising from revaluation, to the extent they cannot be offset against a revaluation surplus in respect of the same asset, are charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal or retirement of revalued assets, the attributable revaluation surplus not previously dealt with in retained profits is transferred directly to retained profits.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the sales proceeds and the carrying amount of the relevant asset.

### Investments in securities

(i) Long term investments, which are held for an identified long term purpose, are stated in the balance sheet at cost less any provisions for diminution in values other than temporary in nature deemed necessary by the directors, on an individual investment basis.

The carrying amounts of long term investments are reviewed as at the balance sheet date in order to assess whether the fair values have declined below the carrying amounts. When such a decline has occurred, the carrying amount is reduced to the fair value unless there is evidence that the decline is temporary. The amount of the reduction is recognised as an expense in the profit and loss account.

(ii) Other investments are stated in the balance sheet at fair value. Changes in fair values are recognised in the profit and loss account as they arise. Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. Unlisted securities are stated at their estimated fair value on an individual investment basis.

# Notes to the Financial Statements

31 December 2000

## 2. Summary of significant accounting policies *(continued)*

### Investments in securities *(continued)*

(iii) Provisions against the carrying value of long term investments are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(iv) Profits or losses on disposal of all investments are accounted for in the profit and loss account as they arise.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis and includes all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on the estimated selling prices less any further costs expected to be incurred to completion and disposal.

### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) sale of goods, when the significant risks and rewards of ownership have been transferred to the buyers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) rendering of services, in the period in which such services are rendered;

(c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

(d) dividends, when the shareholders' right to receive payment is established.

### Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

### Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals on operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

# Notes to the Financial Statements

31 December 2000

## 2. Summary of significant accounting policies *(continued)*

### Deferred tax

Deferred tax is provided, under the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

### Retirement scheme and costs

The Group operates a defined contribution retirement benefits scheme (the "Retirement Scheme") for its employees in Hong Kong, the assets of which are held separately from those of the Group in an independently administered fund. Contributions are made based on a percentage of the eligible employees' salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Retirement Scheme. When an employee leaves the Retirement Scheme before his/her interest in the employer contributions is fully vested, the relevant amount of the forfeited contribution will be allocated to other members remaining in the Retirement Scheme.

On 1 December 2000, the Retirement Scheme was terminated with all the underlying assets of the Retirement Scheme transferred to a Mandatory Provident Fund. Contributions are made based on rates applicable to the respective employees' monthly salaries and are charged to the profit and loss account as they become payable 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 related.

### Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

### Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and the Group's share of net assets of overseas associates expressed in foreign currencies are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

# Notes to the Financial Statements

31 December 2000

## 2. Summary of significant accounting policies *(continued)*

### Foreign currencies *(continued)*

With respect to investments in certain overseas subsidiaries which are financed by way of loans that are not repayable in the foreseeable future, rather than equity, the resulting exchange differences on translation are included in the exchange fluctuation reserve. In the opinion of the directors, such loans are for practical purposes as permanent as equity and, accordingly, are treated as part of the Company's net investments in the enterprises.

### Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which are within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

## 3. Turnover and other revenue

Turnover represents:

(i) invoiced amount of sales of cement, net of trade discounts and returns; and

(ii) rendering of services.

An analysis of turnover and revenue is as follows:

| | **2000** | 1999 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Sales of cement | **640,983** | 443,385 |
| Rendering of services | **10,107** | — |
| Turnover | **651,090** | 443,385 |
| Gain on disposal of short term investments | **64** | 221 |
| Gain on disposal of fixed assets | **23** | — |
| Unrealised gain on short term investments | **—** | 2,187 |
| Handling charges | **5,477** | 5,264 |
| Dividend income from an unlisted long term investment | **2,125** | 2,500 |
| Interest income | **9,653** | 13,596 |
| Others | **2,900** | — |
| Other revenue | **20,242** | 23,768 |
| Total revenue | **671,332** | 467,153 |

# Notes to the Financial Statements

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## 4. Profit from operating activites

The Group's profit from operating activities is arrived at after charging:

| | 2000 | 1999 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| | | *(Restated)* |
| Depreciation | **15,115** | 12,030 |
| Auditors' remuneration: | | |
| Current year's provision | **605** | 400 |
| Prior year's underprovision | **—** | 100 |
| Amortisation of goodwill: | | |
| On acquisition of a subsidiary | **2,151** | 2,151 |
| On acquisition of an associate | **3,113** | 3,113 |
| Loss on disposal of fixed assets | **—** | 3 |
| Operating lease rentals on land and buildings | **9,274** | 8,637 |
| Exchange losses, net | **17,159** | 725 |
| Unrealised loss on short term investments | **14,087** | — |
| Provision for impairment in value of investment securities | **17,851** | — |
| Staff costs (excluding directors' remuneration, see note 6): | | |
| Wages and salaries | **14,864** | 10,270 |
| Retirement Scheme contributions | **488** | 473 |
| Less: Forfeited contributions | **—** | — |
| Net Retirement Scheme contributions* | **488** | 473 |

* There were no forfeited contributions available during the year and at the year end to reduce contributions during the year and in future years, respectively, as any forfeited contributions will be allocated to other members remaining in the Retirement Scheme.