

# Notes to the Financial Statements

31 December 2000

## 25. Notes to consolidated cash flow statement

(a) Reconciliation of profit from operating activities to net cash inflow from operating activities:

	<b>2000</b>	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Restated)</i>
Profit from operating activities	<b>74,470</b>	105,407
Interest income	<b>(9,653)</b>	(13,596)
Dividend income from an unlisted long term investment	<b>(2,125)</b>	(2,500)
Amortisation of goodwill	<b>5,264</b>	5,264
Depreciation	<b>15,115</b>	12,030
Loss/(gain) on disposal of fixed assets	<b>(23)</b>	3
Gain on disposal of short term investments	<b>(64)</b>	(221)
Unrealised loss/(gain) on short term investments	<b>14,087</b>	(2,187)
Decrease in rental deposits	<b>206</b>	—
Provision for impairment in value of investment securities	<b>17,851</b>	—
Increase in inventories	<b>(3,192)</b>	(6,607)
Decrease/(increase) in prepayments, deposits and other receivables	<b>(1,100)</b>	13,905
Increase in trade receivables	<b>(13,486)</b>	(4,522)
Increase/(decrease) in trade payables	<b>(670)</b>	11,140
Increase/(decrease) in other payables and accrued liabilities	<b>(9,340)</b>	8,675
Increase/(decrease) in amount due to ultimate holding company	<b>(111)</b>	111
Decrease in amount due to a fellow subsidiary	<b>(480)</b>	(3,140)
Exchange adjustment	<b>(1,000)</b>	(596)
Net cash inflow from operating activities	<b>85,749</b>	123,166

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### 25. Notes to consolidated cash flow statement (continued)

(b) Analysis of changes in financing during the years:

	Bank loans with maturity beyond three months <i>HK\$'000</i>	Share capital (including premium) <i>HK\$'000</i>	Minority interests <i>HK\$'000</i> <i>(Restated)</i>
Balance at 1 January 1999			
As previously reported	13,108	158,881	67,804
Prior year adjustment	—	—	(379)
As restated	13,108	158,881	67,425
Net cash inflows/(outflow) from financing	41,887	1,529	(1,830)
Share of profit for the year	—	—	12,433
Dividend paid to minority interests	—	—	(6,900)
Exchange realignment	(409)	—	—
Balance at 31 December 1999	54,586	160,410	71,128
At beginning of year			
As previously reported	54,586	160,410	71,927
Prior year adjustment	—	—	(799)
As restated	54,586	160,410	71,128
Arising from acquisition of a subsidiary	—	—	9,152
Net cash inflows from financing	306,124	1,107,802	—
Share of profit for the year	—	—	3,717
Dividend paid to minority interests	—	—	(9,000)
Exchange realignment	(2,016)	—	(573)
Balance at 31 December 2000	358,694	1,268,212	74,424

As at 31 December 2000, bank loans with maturity less than three months amounted to HK\$30,000,000 (1999: Nil).

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### 25. Notes to consolidated cash flow statement (continued)

(c) Major non-cash transaction

During the year, the Group capitalised interest expenses of HK\$1,631,000 as part of the cost of construction in progress.

(d) Acquisition of a subsidiary

	2000
	HK\$'000
Net assets acquired:	
Fixed assets	1,421
Cash and bank balances	14,047
Trade receivables	1,452
Inventories	779
Prepayment, deposits and other receivables	4,083
Trade payables	(1,956)
Other payables and accrued liabilities	(1,149)
Minority interests	(9,152)
	<u>9,525</u>
Goodwill	<u>23,188</u>
	<u>32,713</u>
Satisfied by:	
Cash	<u>32,713</u>

Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary:

	2000
	HK\$'000
Cash consideration	(32,713)
Cash and bank balances acquired	<u>14,047</u>
Net outflow of cash and cash equivalents	
in respect of the acquisition of a subsidiary	<u>(18,666)</u>

In respect of the cash flows for the year ended 31 December 2000, the subsidiary acquired in the current year contributed net cash outflows of HK\$5,428,000 to the Group's net operating cash flows and utilised HK\$3,879,000 for investing activities.

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### 26. Contingent liabilities

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees in respect of banking facilities granted to:				
Wholly-owned subsidiaries	—	—	215,560	162,900
Non-wholly-owned subsidiary	—	—	53,280	53,280
	—	—	268,840	216,180

Details of the corporate guarantees given by the Company to banks in securing banking facilities granted to the subsidiaries, and the amounts utilised are as follows:

	Guarantees given by the Company		Utilised as at the balance sheet date	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong Cement Company Limited	175,000	135,000	100,000	—
TCC Cement Corporation	40,560	27,900	34,965	12,529
Anhui King Bridge Cement Company Limited	53,280	53,280	46,729	42,057
	268,840	216,180	181,694	54,586

### 27. Commitments

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital commitments:				
Contracted for	9,192	10,360	—	—
Annual commitments under non-cancellable operating leases:				
Land and buildings expiring:				
Within one year	1,203	—	—	—
In the second to fifth years, inclusive	46	840	—	—
After five years	8,206	8,776	5,280	5,280
	9,455	9,616	5,280	5,280

# Notes to the Financial Statements

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## 28. Related party transactions

In addition to the transactions set out elsewhere in these financial statements, during the year, the Group entered into the following material related party transactions.

### A. Transactions of a recurring nature

Transactions (i) to (iii) also constituted connected transactions as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"):

		Group
		2000
	<i>Note</i>	<i>HK\$'000</i>
		1999
		<i>HK\$'000</i>
Purchases of cement from ultimate holding company	(i)	<b>369,937</b>
Rental expenses paid to a fellow subsidiary	(ii)	<b>5,280</b>
Rental expenses paid to a related company*	(iii)	<b>3,213</b>
Sales of cement to an associate	(iv)	<b>104,514</b>

\* The related company is an associate of the ultimate holding company.

#### Notes:

(i) The directors consider that purchases of cement from the ultimate holding company were made according to prices and conditions similar to those available to other cement importers in Hong Kong in respect of supplies from the same country of origin.

The prices charged by the ultimate holding company in respect of shipments to Hong Kong fell within 2.5 per cent. of the benchmark prices, being the weighted average price per tonne of cement calculated by reference to prices of imports from Taiwan or Japan into Hong Kong provided by the Census & Statistics Department of the Hong Kong Government Special Administrative Region, with reference to the respective countries of origin of the cement supplied by the ultimate holding company.

The prices charged by the ultimate holding company in respect of shipments to the Philippines did not exceed the weighted average price per tonne of cement as quoted from certain large independent cement suppliers in respect of their supplies into the Philippines by more than 5 per cent.

The basis of these pricing policies was set out in greater detail in a circular to the shareholders of the Company dated 25 August 1998.

The balance due to the ultimate holding company in respect of cement supplies as at 31 December 2000 amounted to HK\$23,476,000 (1999: HK\$23,206,000) (see note 21).

# Notes to the Financial Statements

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## 28. Related party transactions *(continued)*

### A. Transactions of a recurring nature *(continued)*

Notes: *(continued)*

- (ii) The rental expenses related to a leasehold land in Hong Kong on which an industrial building of the Group is located (see note 12). The monthly rentals of HK\$440,000 (1999: HK\$400,000 for the period from 1 January 1999 to 10 September 1999 and HK\$440,000 thereafter) were based on a market rental valuation provided by an independent professional valuer in 1999. A separate market rental valuation is subject to review every two years pursuant to the leasing agreement entered into between the Group and the fellow subsidiary in 1997. The terms of the leasing agreement were also disclosed in the Company's prospectus dated 23 September 1997. The next review will be conducted in September 2001.

A rental deposit of HK\$880,000 (1999: HK\$800,000) was paid to the fellow subsidiary (see note 14).

- (iii) The rental expenses related to a freehold land in the Philippines on which an industrial building of the Group is located (see note 12). The monthly rentals of Pesos 1,500,000 (1999: Pesos 1,275,000 for the period from 1 January 1999 to 31 August 1999 and Pesos 1,500,000 thereafter) were based on a market rental valuation provided by an independent professional valuer in 1999. A separate market rental valuation is subject to review every two years pursuant to the leasing agreement entered into between the Group and the related company in 1997. The terms of the leasing agreement were also disclosed in the Company's prospectus dated 23 September 1997. The next review will be conducted in September 2001.

A rental deposit of Pesos 7,650,000 (equivalent to HK\$1,247,000) was paid to this related company (see note 14).

- (iv) Sales of cement to an associate were made according to prices and conditions offered to other major customers of the Group. The balance due from the associate at 31 December 2000 was HK\$16,425,000 (1999: HK\$18,014,000) (see note 18).

In respect of (i) the purchases of cement from the ultimate holding company; (ii) rental expenses paid to a fellow subsidiary; and (iii) rental expenses paid to a related company stated above, the Group entered into agreements with the respective parties for a period of 10 years, 30 years and 25 years (renewable for another 25 years), respectively, commencing from the year ended 31 December 1997.

### B. Transactions approved by the Company's Independent Shareholders

On 10 January 2000, the Company, through its subsidiaries, entered into conditional acquisition agreements with each of the 14 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, at NT\$40 per share (the "Acquisition"). KG Telecom has been accounted for as an associate of the Group (see note 16). The total consideration for the Acquisition amounted to approximately HK\$1,578,000,000.

Amongst the 155,600,000 shares of KG Telecom acquired, 40,000,000 shares were acquired from KOOS Development Corporation, a company controlled by Mr. Koo Cheng Yun, Leslie who is a director of the Company, and 38,600,000 shares were acquired from eight subsidiaries of TCC. The consideration per share paid to these related parties was the same as the consideration per share paid to other third party vendors pursuant to the Acquisition.

The Acquisition also constituted a very substantial acquisition and a connected transaction under the Listing Rules. A circular incorporating details of the Acquisition was dispatched to the Company's shareholders on 16 February 2000.

# Notes to the Financial Statements

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## 28. Related party transactions (continued)

### B. Transactions approved by the Company's Independent Shareholders (continued)

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.

### C. Transactions among Group Companies

The Company also granted corporate guarantees to banks in favour of certain of its subsidiaries in securing banking facilities available to these companies. The corporate guarantee granted to non-wholly-owned subsidiaries is in proportion to the Group's shareholding interest therein. Further details are set out in note 26.

## 29. Segmental reporting

An analysis of the Group's turnover and contribution to profit from operating activities by principal activity and geographical location of operations, disclosed pursuant to the requirements of the Listing Rules, is as follows:

	Turnover		Contribution to profit from operating activities	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
<i>(Restated)</i>				
By principal activity:				
Import and distribution of cement	635,131	443,385	111,304	97,444
Manufacturing and distribution of cement	5,852	—	(4,858)	(2,291)
Investment holding	—	—	(28,903)	10,254
Others	10,107	—	(3,073)	—
	<b>651,090</b>	443,385	<b>74,470</b>	105,407
By geographical location of operations:				
People's Republic of China:				
Hong Kong	272,493	313,110	55,412	90,346
Elsewhere	5,852	—	(4,858)	(2,291)
Philippines	362,638	130,275	27,267	17,352
Others	10,107	—	(3,351)	—
	<b>651,090</b>	443,385	<b>74,470</b>	105,407

# Notes to the Financial Statements

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## 30. Post balance sheet event

Subsequent to the balance sheet date, on 15 January 2001, the Group, through a wholly-owned subsidiary, accepted an offer to subscribe for 7,000,000 new shares in Koos Venture Capital Co. Ltd. ("Koos VC") at a consideration of HK\$17,290,000 (NT\$70,000,000), representing 1.35% equity interest in the enlarged issued share capital of Koos VC. As part of the same share offering, the Company's ultimate holding company, together with its associates other than the Group also accepted an offer to subscribe for an aggregate of 73,000,000 new shares of Koos VC, representing an aggregate of 14.04% equity interest in the enlarged issued share capital of Koos VC. Koos VC is a venture capital company incorporated in Taiwan on 23 January 1995 having a particular investment focus on software development and applications, internet communication network, optical electronics and bio-technology research and development. The acquisition was financed by a new loan granted by a bank to the Group. Such bank loan was secured by a pledge of certain shares in Koos VC owned by the Group.

## 31. Comparative amounts

As more fully explained in note 11, due to the adoption of SSAP 1 as clarified by Interpretation No.9 "Accounting for pre-operating costs" during the current year, certain prior year amounts in the consolidated profit and loss account, the consolidated balance sheet and certain supporting notes have been restated.

## 32. Approval of the financial statements

The financial statements were approved by the board of directors on 2 April 2001.