

Major customers and suppliers

During the year under review, sales to the Group's largest customer and its five largest customers accounted for approximately 12.8% and 53% of the Group's turnover, respectively.

Purchases from the Group's largest supplier and its five largest suppliers accounted for approximately 68.3% and 93.2% 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, 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% 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 and these shares were subsequently cancelled by the Company. The directors consider 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 25 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 31 to the financial statements. The transactions included in note 31(A) items (i) to (iii) and note 31(B) to the financial statements, also constitute connected transactions during the year as defined under 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;

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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;
- (d) within an annual limit of 80% (2000: 60%) of the audited consolidated turnover of the Group for the year in respect of the transaction (i) stated above;
- (e) within an annual limit of 75% of the audited turnover of the subsidiary for the year in respect of the transaction (iv) stated above;
- (f) within an annual limit of RMB10 million in respect of the transaction (v) stated above; and
- (g) within an annual limit of 50% of the audited turnover of the subsidiary for the year 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 31(A) to the financial statements.

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

	Note	2001 HK\$'000	2000 HK\$'000
Supply of clinker and cement by a minority shareholder of a subsidiary	(iv)	12,671	5,056
Supply of woven bags by an associate of a minority shareholder of the same subsidiary referred to in (iv) above	(v)	64	120

Notes:

- (iv) The purchase of clinker and cement from the minority shareholder accounted for less than 75% of the audited turnover of the subsidiary for the year ended 31 December 2001 (2000: for the period from the 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 connected person 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.

Related party and connected transactions (continued)

- (v) The purchase of woven bags from an associate of the minority shareholder did not exceed the cap limit of RMB10 million for the year ended 31 December 2001 (2000: the attributable portion of the cap limit of RMB10 million for the period from the 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 that connected person for subsequent supplies.
- (vi) During the year, the Group did not sell any slag powder to the minority shareholder of the subsidiary (2000: Nil).

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 June 2001, KG Telecommunications Co., Ltd. ("KG Telecom"), an associate of the Group, offered new shares (the "KG Telecom Shares") to its staff and existing shareholders for subscription on the basis of a rights issue (the "Rights Issue Proposal"). The subscription of the Group's entitlement under the KG Telecom's Rights Issue Proposal constituted a connected transaction under the Listing Rules, and should not proceed without the approval of the Company's independent shareholders. However, it was not possible, within the timetable of the KG Telecom Rights Issue, for the Company to convene an extraordinary general meeting to seek the independent shareholders' approval in order to take up the Group's entitlement under the KG Telecom's Rights Issue Proposal.

On 28 June 2001, the Group, through its two wholly-owned subsidiaries, Ulexite Investments Limited ("Ulexite") and HKC Investment Corporation ("HKCI"), entered into a loan agreement with an independent third party, 功成顧問有限公司 ("功成"), to subscribe for the Group's entitlement of KG Telecom Shares (the "Loan Agreement"). Pursuant to the Loan Agreement, Ulexite and HKCI made available a loan in the aggregate principal amount of NT\$486,137,700 (approximately HK\$110,486,000) (the "Loan"), so as to enable 功成, as the subscriber designated by Ulexite and HKCI, to subscribe for the aggregate of 16,204,590 KG Telecom Shares at NT\$30 (approximately HK\$6.82) per KG Telecom Share which had been offered to Ulexite and HKCI under KG Telecom's Rights Issue Proposal. To ensure the recovery of the Loan, it was a condition under the Loan Agreement that the 16,204,590 KG Telecom Shares subscribed by 功成 would be pledged as security for the repayment and other obligations of 功成 under the Loan Agreement.

On 26 September 2001, the Group (through its wholly-owned subsidiaries, Ulexite and HKCI) entered into an acquisition agreement with 功成 for the acquisition of the 16,204,590 KG Telecom Shares (the "Acquisition") at a consideration equal to the principal amount of the Loan of HK\$110,486,000 due by 功成 to the Group together with the interest accrued from the date of Loan Agreement to the date of repayment of the Loan which amounted to HK\$1,478,000 in aggregate.

Since the aggregate value of the consideration given for the Acquisition exceeds 15% of the net tangible assets of the Group as shown in its latest published audited financial statements for the year ended 31 December 2000 and Taiwan Cement Corporation, the ultimate holding company of the Company, together with its subsidiaries (other than the Group), holds a 23.13% shareholding interest in KG Telecom and is therefore a substantial shareholder of KG Telecom, the Acquisition constituted a discloseable and connected transaction of the Company under the Listing Rules. Further details of the Acquisition are set out in a circular to the Company's shareholders dated 24 October 2001.

Pursuant to the resolution passed at an extraordinary general meeting of the Company held on 9 November 2001, the Acquisition was approved by the Company's independent shareholders.

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Practice Note 19 of the Listing Rules

In accordance with the disclosure requirements of paragraph 3.7.1 of Practice Note 19 of the Listing Rules, the following disclosures are included in respect of one of the Company's loan agreements, which contains covenants requiring performance obligations of the controlling shareholder of the Company.

Pursuant to a loan agreement dated 27 September 2001 between the Company and CITIC Ka Wah Bank, relating to a one-year loan facility of HK\$40,000,000, a termination event would arise if Taiwan Cement Corporation, the Company's ultimate holding company, ceases to own beneficially, directly or indirectly, at least 51% of the shares in the Company's capital.

Post balance sheet event

Details of the post balance sheet event are set out in note 32 to the financial statements.

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 throughout the accounting period covered by the annual report 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.

Audit committee

The Company, in 1999, has 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 for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. 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

25 April 2002