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

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

2. Impact of new and revised Statements of Standard Accounting Practice ("SSAPs")

The following recently-issued and revised SSAPs and a related Interpretations are effective for the first time for the current year's financial statements:

SSAP 9 (Revised)	Events after the balance sheet date
SSAP 14 (Revised)	Leases
SSAP 18 (Revised)	Revenue
SSAP 26	Segment reporting
SSAP 28	Provisions, contingent liabilities and contingent assets
SSAP 30	Business combinations
SSAP 31	Impairment of assets
SSAP 32	Consolidated financial statements and accounting for investments in subsidiaries
Interpretation 13	Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects of adopting these SSAPs and Interpretations are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Its principal impact on these financial statements is that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained earnings as set out in note 26 to the financial statements. The prior year adjustment arising from the adoption of this new SSAP is detailed in note 13 to the financial statements.

2. Impact of new and revised Statements of Standard Accounting Practice (“SSAPs”) (continued)

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, and therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for operating leases, which are further detailed in note 29 to the financial statements.

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company's own financial statements for the year. The adoption of the SSAP has had no major impact on these financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires management to determine whether the Group’s predominant risks or returns for the business are based on business segments or geographical segments and to choose one of these bases as the primary segment information reporting format, with the other as the secondary segment information reporting format. The principal impact of the SSAP is the inclusion of additional segment reporting disclosures which are included in note 4 to these financial statements.

SSAP 28 prescribes the accounting treatment and disclosures for provisions, contingent liabilities and contingent assets. This SSAP has been applied retrospectively and has had no major impact on these financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves. The adoption of the SSAP and Interpretation has not resulted in a prior year adjustment, further details of which together with the required new additional disclosures are included in note 15 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. In accordance with SSAP 31, the Group is required to assess at each balance sheet date whether there are any indications that assets (including fixed assets, intangible assets and goodwill arising on acquisition of subsidiaries and associates) may be impaired, and if there are such indications, the recoverable amount of the assets is to be determined. This SSAP is to be applied prospectively, except for retrospectively impaiment of goodwill under SSAP30 above. The effect of adoption of this SSAP is set out in notes 13 and 26 to the financial statements.

2. Impact of new and revised Statements of Standard Accounting Practice ("SSAPs") (continued)

SSAP 32 prescribes the accounting treatment and disclosures in the preparation and presentation of consolidated financial statements. The adoption of this SSAP has had no major impact on these financial statements.

3. 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 periodic remeasurement of certain fixed assets and equity 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 2001, 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 whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

(a) a subsidiary, if the Company has unilateral control over the joint venture company;

3. Summary of significant accounting policies (continued)

Joint venture companies (continued)

(b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control over the joint venture company;

(c) an associate, if the Company does not have unilateral or joint control, but is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the Company has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, 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 impairment losses. Goodwill or negative goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in consolidated reserves, is included as part of the Group's interests in associates.

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 treated as long term assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the balance sheet as an asset and amortised on the straight-line basis over its estimated useful life. In the case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

In prior years, goodwill arising on acquisition of a subsidiary, Koning Concrete Limited, was recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 10 years. Goodwill arising on acquisition of a subsidiary, OneMore Inc. ("OneMore"), was eliminated against consolidated reserves at the time of acquisition.

3. Summary of significant accounting policies (continued)

Goodwill (continued)

In addition, in prior years, goodwill arising from the acquisition of associates, except for KG Telecommunications Company Limited ("KG Telecom"), as recognised in the consolidated balance sheet as an assets and amortised on the straight-line basis over its estimated useful life of 10 years. The unamortised portion of such goodwill was included as part of the Group's interests in associates, rather than as a separately identified asset on the consolidated balance sheet. Goodwill arising on the acquisition of KG Telecom was eliminated against consolidated reserves in the year of acquisition.

The Group has taken advantage of transitional provision 1(a) in SSAP 30 which permits goodwill arising from acquisition of OneMore Inc. and KG Telecom, prior to 1 January 2001 to remain eliminated against consolidated reserves at the time of acquisition. Goodwill on subsequent acquisition is treated according to the accounting policy set out above.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Impairment of assets

At each balance sheet date, an assessment is made of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined (net of depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

3. Summary of significant accounting policies (continued)

Impairment of assets (continued)

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation and any impairment losses.

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.

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, which is stated at cost less any impairment losses. 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 property 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 as a movement in reserves.

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.

3. Summary of significant accounting policies (continued)

Investments in securities

(i) Long term investments in listed and unlisted equity equities, which are held for an identified long term purpose, are included in the balance sheet as investment securities and are stated at cost less any impairment losses, 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 in listed and unlisted equity equities, either intended to be held on a short term or long term basis, 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.

(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.

Leased assets

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

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.

3. Summary of significant accounting policies (continued)

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 were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash and bank balances represent assets which are not restricted to use.

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) from the 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) from the 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) dividend income, when the shareholders' right to receive payment is established.

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. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within reserves in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends are approved by the shareholders and declared, they are recognised as a liability.

3. Summary of significant accounting policies (continued)

Dividends (continued)

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised directly as a liability when they are proposed and declared.

In previous years, the Company recognised its proposed final dividend to shareholders, which was declared and approved after the balance sheet date, as a liability in its balance sheet. The Company also recognised the proposed final dividends of subsidiaries, which were declared and approved after the balance sheet date, as income in its profit and loss account for the year. The revised accounting treatments for dividends resulting from the adoption of SSAP 9 (Revised) and SSAP 18 (Revised), have given rise to prior year adjustments in both the Group's and the Company's financial statements, further details of which are included in notes 11, 13(a) and 26 to the financial statements.

Retirement scheme and costs

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for its eligible employees in Hong Kong. The MPF Scheme has operated since 1 December 2000.

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.

The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

Prior to the MPF Scheme becoming effective, the Group operated a defined contribution retirement benefits scheme (the "prior scheme") for those employees who were eligible to participate in this scheme. This prior scheme operated in a similar way to the MPF Scheme, except that when an employee left the prior scheme before his/her interest in the Group's employer contributions vested fully, the relevant amount of the forfeited contributions were allocated to other members remaining in the prior scheme. On 1 December 2000, the prior scheme was terminated and the contribution in respect of the prior scheme were transferred to the MPF Scheme.

Employees of 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 its covered payroll to the

3. Summary of significant accounting policies (continued)

Retirement scheme and costs (continued)

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.

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.