

NOTES TO FINANCIAL STATEMENTS

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27. Notes to consolidated cash flow statement (continued)

(c) Major non-cash transaction

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

(d) Acquisition of a subsidiary

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
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)
	—	9,525
Goodwill	—	23,188
	—	32,713
Satisfied by:		
Cash	—	32,713
Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:		
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Cash consideration	—	(32,713)
Cash and bank balances acquired	—	14,047
Net outflow of cash and cash equivalents		
in respect of the acquisition of a subsidiary	—	(18,666)

The subsidiary acquired did not have material effect on the Group's turnover or net loss from ordinary activities attributable to shareholders for the year ended 31 December 2000.

In respect of the cash flows for the year ended 31 December 2000, the subsidiary acquired 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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28. Contingent liabilities

	Group		Company	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Guarantees in respect of banking facilities granted to:				
Wholly-owned subsidiaries	—	—	187,900	215,560
Non wholly-owned subsidiary	—	—	53,280	53,280
	—	—	241,180	268,840

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	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Hong Kong Cement Company Limited	145,000	175,000	125,000	100,000
Dragon Pride International Limited	15,000	—	15,000	—
TCC Cement Corporation	27,900	40,560	7,896	34,965
Anhui King Bridge Cement Company Limited	—	53,280	—	46,729
	187,900	268,840	147,896	181,694

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29. Operating lease arrangements

The Group leases two industrial buildings under operating lease arrangements from a fellow subsidiary and a related company. Details of the terms of these leases are set out in note 31(A)(ii) and (iii). At the balance sheet date, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i> (Restated)	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i> (Restated)
Within one year	8,338	8,769	4,800	5,280
In the second to fifth years, inclusive	32,461	33,902	19,200	21,120
After five years	150,093	163,447	99,333	114,547
	190,892	206,118	123,333	140,947

SSAP 14 (Revised), which was adopted during the year, requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating lease commitments have been restated to accord with the current year's presentation.

30. Commitments

At the balance sheet date, the Group and the Company had capital commitments as follows:

	Group		Company	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Capital commitments:				
Contracted for	—	9,192	—	—

As more fully explained in note 32, subsequent to the balance sheet date, the Group obtained approval to incorporate a wholly-foreign-owned-enterprise in Mainland China (the "WFOE"). The Group's contribution payable for the registered capital of this WFOE is US\$10,000,000.

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31. 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	
	Notes	2001 HK\$'000	2000 HK\$'000
Purchases of cement from the ultimate holding company	(i)	315,051	369,937
Rental expenses paid to a fellow subsidiary	(ii)	5,133	5,280
Rental expenses paid to a related company*	(iii)	2,955	3,213
Sales of cement to an associate	(iv)	86,136	104,514

* 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% 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 third party cement suppliers in respect of their supplies into the Philippines by more than 5%.

The basis of these pricing policies was set out in greater detail in circulars to the shareholders of the Company dated 25 August 1998 and 9 July 2001.

The balance due to the ultimate holding company in respect of cement supplies as at 31 December 2001 amounted to HK\$29,372,000 (2000: HK\$23,476,000) (see note 23).

31. Related party transactions (continued)

A. Transactions of a recurring nature (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 14). The monthly rentals of HK\$440,000 for the period from 1 January 2001 to 10 September 2001 and HK\$400,000 thereafter were based on a market rental valuation provided by an independent professional valuer in 2001. The monthly rental for the year ended 31 December 2000 of HK\$440,000 was based on a similar rental valuation conducted 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 2003.

A rental deposit of HK\$800,000 (2000: HK\$880,000) was paid to the fellow subsidiary (see note 16).

(iii) The rental expenses related to a freehold land in the Philippines on which an industrial building of the Group is located (see note 14). The monthly rentals of Pesos 1,500,000 for the period from 1 January 2001 to 31 August 2001 and Pesos 1,800,000 thereafter were based on a market rental valuation provided by an independent professional valuer in 2001. The monthly rental for the year ended 31 December 2000 of Pesos 1,500,000 was based on a similar rental valuation conducted 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 2003.

A rental deposit of Pesos 7,650,000 (equivalent to HK\$1,148,000) was paid to this related company (see note 16).

(iv) The 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 2001 was HK\$6,981,000 (2000: HK\$16,425,000) (see note 20).

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

In June 2001, 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, which 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,

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31. Related party transactions (continued)

B. Transactions approved by the Company's independent shareholders (continued)

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 to guarantee 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 28 September 2001 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.

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 28 to the financial statements.

32. Post balance sheet event

Subsequent to the balance sheet date, on 18 April 2002, the Company, through a wholly-owned subsidiary, obtained approval from the relevant authorities in Mainland China to incorporate a wholly-foreign-owned-enterprise ("WFOE") in Fuzhou, Fujian province, Mainland China. The principal activity of this WFOE consists of manufacturing of cement. The Group's contribution payable for the registered capital of this WFOE is US\$10,000,000.

33. Comparative amounts

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

34. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 25 April 2002.