

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2002.

Principal activities

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 and slag powder in 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.

During the year, the principal activity of the Group's subsidiary operating in the Philippines has changed from engaging in the import and distribution of cement to the provision of cement handling services in the Philippines. In September 2002, the Group's investment in the provision of cellular telecommunication services in Taiwan was reclassified from an associate to investment securities when the Group ceased to have any board representation in the associate.

Results and dividends

The Group's loss for the year ended 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 29 to 79.

An interim dividend of HK1.5 cents per ordinary share was paid on 15 October 2002. The board of directors do not recommend the payment of a final dividend in respect of the year.

Summary financial information

Set out below is a summary of the results and a statement of net assets of the Group for the last five financial years, as extracted from the audited financial statements, restated and reclassified as appropriate.

Results

	Year ended 31 December				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000 (Restated)	1999 HK\$'000	1998 HK\$'000
TURNOVER	277,236	671,355	651,090	443,385	364,873
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	(584,636)	96,561	(311,791)	145,398	109,462

Report of the Directors (continued)

Assets, liabilities and minority interests

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	31 December 2000 <i>HK\$'000</i> (Restated)	1999 <i>HK\$'000</i> (Restated)	1998 <i>HK\$'000</i> (Restated)
TOTAL ASSETS	1,415,119	1,369,264	1,277,432	881,611	728,404
TOTAL LIABILITIES	(552,141)	(561,179)	(464,739)	(138,346)	(87,315)
MINORITY INTERESTS	(68,500)	(63,842)	(74,424)	(71,128)	(67,426)
	794,478	744,243	738,269	672,137	573,663

Fixed assets

Details of movements in the fixed assets of the Group during the year are set out in note 13 to the financial statements.

Share capital and share options

Details of movements in share capital and share options of the Company, together with the reasons therefor, are set out in notes 24 and 25 to the financial statements.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's articles of association or the Companies Law (2000 revision) of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, redemption or sale of listed securities of the Company

During the year, the Company repurchased certain of its shares on The Hong Kong Stock Exchange 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. Further details of these transactions are set out in note 24 to the financial statements.

Except as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 26 to the financial statements and in the consolidated summary statement of changes in equity.

Report of the Directors *(continued)*

Distributable reserves

At 31 December 2002, the Company's reserves, including the share premium and contributed surplus accounts, available for cash distribution and/or distribution in specie, computed in accordance with the Companies Law (2000 revision) of the Cayman Islands, amounted to HK\$713,441,000. Under the laws of the Cayman Islands, a company may make distributions to its members out of the share premium and contributed surplus accounts under certain circumstances.

Directors

The directors of the Company during the year and up to the date of this report were:

Executive directors

KOO Cheng Yun, Leslie (*Chairman*)

WU Yih Chin (*Managing Director*)

TSAO Jas Yee, James

Non-executive directors

HUI-BON-HOA Khien Piau, Pierre

CHIANG Cheng Hsiung

CHEN Chi Hsiung

Independent non-executive directors

LIAO Poon Huai, Donald

SHAN Weijian

In accordance with article 116 of the Company's articles of association, TSAO Jas Yee, James and HUI-BON-HOA Khien Piau, Pierre, will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Directors' and senior management's biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 15 to 17 of the annual report.

Directors' service contracts

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Group which is not determinable by the Group within one year without payment of compensation other than by statutory obligation.

Report of the Directors (continued)

Directors' interests in contracts

Except as further detailed in note 31 to the financial statements, no director had a significant beneficial interest, either direct or indirect, in any material contract to the business of the Group to which the Company or any of its holding companies, fellow subsidiaries and subsidiaries was a party during the year.

Directors' interests in shares

At 31 December 2002, the interests of the directors in the share capital of the Company or its associated corporations within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance were as follows:

Interests in the Company

Director	Nature of interest	Number of shares
HUI-BON-HOA Khien Piau, Pierre	Personal	5,680,000
WU Yih Chin	Personal	1,700,000
TSAO Jas Yee, James	Personal	1,500,000

Interests in the associated corporations

(i) *Taiwan Cement Corporation ("TCC") **

Director	Number of shares and nature of interest			
	Personal	Family	Corporate	Total
KOO Cheng Yun, Leslie	25,790,583	3,083 (Note 1)	24,143,380 (Note 2)	49,937,046
WU Yih Chin	123,919	—	—	123,919
CHIANG Cheng Hsiung	482,283	29,993 (Note 1)	—	512,276
CHEN Chi Hsiung	340,380	7,885	—	348,265
LIAO Poon Huai, Donald	487,576	626,399 (Note 1)	—	1,113,975

* *The ultimate holding company of the Company*

Notes:

(1) *The shares are held by the respective directors' spouse as the registered and beneficial shareholder.*

(2) *KOO Cheng Yun, Leslie, together with his spouse, hold 44% of the issued capital of a company which holds 24,143,380 shares of TCC.*

Report of the Directors (continued)

Directors' interests in shares (continued)

Interests in the associated corporations (continued)

(ii) *Hong Kong Cement Manufacturing Company Limited***

Director	Nature of interest	Number of shares
HUI-BON-HOA Khien Piau, Pierre	Personal	710

(iii) *Prosperity Dielectrics Company Limited***

Director	Nature of interest	Number of shares
KOO Cheng Yun, Leslie	Personal	21,991
CHIANG Cheng Hsiung	Personal	21,146

(iv) *Archtek Telecom Corporation***

Director	Nature of interest	Number of shares
CHIANG Cheng Hsiung	Personal	18
CHEN Chi Hsiung	Personal	18

(v) *Taiwan Cement Engineering Corporation***

Director	Nature of interest	Number of shares
CHIANG Cheng Hsiung	Personal	25,517

(vi) *Ta-Ho Maritime Corporation***

Director	Nature of interest	Number of shares
CHIANG Cheng Hsiung	Personal	26,450
	Family	71,083
		97,533
CHEN Chi Hsiung	Personal	16,114
	Family	16,114
		32,228

** Subsidiaries of the ultimate holding company of the Company

Report of the Directors (continued)

Directors' interests in shares (continued)

In addition to the above, certain directors have non-beneficial personal equity interests in certain subsidiaries of the Group held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other beneficial interests in the share capital of the Company or any of its associated corporations as defined in the SDI Ordinance.

Share option scheme

Due to the adoption of the Statement of Standard Accounting Practice No. 34 "Employee benefits" during the year, most of the detailed disclosures relating to the Company's share option scheme have been moved to note 25 to the financial statements.

Directors' rights to acquire shares or debentures

Apart from the details as disclosed under the heading "Directors' interests in shares" above and in note 25 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding companies, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Substantial shareholders

As at 31 December 2002, the following interests of 10% or more in the issued share capital of the Company were recorded in the register kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares	Percentage of issued shares
TCC International Limited	512,120,000	65.84%
Taiwan Cement Corporation*	512,120,000	65.84%

* *Taiwan Cement Corporation is interested in the shares of the Company by virtue of its beneficial ownership of the entire issued share capital of TCC International Limited.*

Save as disclosed above, the directors are not aware of any person who was, directly or indirectly, interested in 10% or more of the issued share capital of the Company as at 31 December 2002 that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

Report of the Directors *(continued)*

Major customers and suppliers

During the year under review, sales to the Group's largest customer and its five largest customers accounted for approximately 30% and 65% of the Group's turnover, respectively.

Purchases from the Group's largest supplier and its five largest suppliers accounted for approximately 58.7% and 80.5% 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 best 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.

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) to the financial statements also constitute connected transactions 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;
- (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;

Report of the Directors (continued)

Related party and connected transactions (continued)

- (d) within an annual limit of 80% 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:

	Notes	2002 HK\$'000	2001 HK\$'000
Supply of clinker and cement by a minority shareholder of a subsidiary	(1)	3,120	12,671
Supply of woven bags by an associate of a minority shareholder of the same subsidiary referred to in (iv) above	(2)	—	64
Sales of slag powder to a minority shareholder of the same subsidiary referred to in (iv) above	(3)	4,441	—

Notes:

- (1) 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 2002 pursuant to the supply agreement governing such transaction (the "Supply Agreement I"). 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.
- (2) During the year, the Group did not purchase any woven bags from the associate of the minority shareholder of the subsidiary (2001: HK\$64,000).
- (3) The sales of slag powder to the minority shareholder of the subsidiary did not exceed 50% of the total turnover for the year ended 31 December 2002 pursuant to the supply agreement governing such transaction (the "Supply Agreement II"). The weighted average price per tonne of slag powder charged to this connected person was not less than 93% of the weighted average price in respect of its sales of slag powder 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 the prior year, the Group did not sell any slag powder to the minority shareholder of the subsidiary.

Report of the Directors *(continued)*

Related party and connected transactions *(continued)*

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.

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 the Company's loan agreements, which contain covenants requiring performance obligations of the controlling shareholder of the Company.

Pursuant to a loan agreement dated 27 September 2001 between the Company and a 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.

Pursuant to loan agreements dated 25 April 2002 between the Company and certain banks relating to a three-year term loan facility and a three-year syndicated loan facility of HK\$25,000,000 and HK\$250,000,000, respectively, a termination event would arise if (i) Taiwan Cement Corporation, the Company's ultimate holding company, ceases to own legally and beneficially, at least 35% of the shares in the Company's capital or (ii) the Group fails to meet the financial covenants stipulated in the loan facilities.

Post balance sheet events

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

Code of Best Practice

In the opinion of the directors, the Company 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, established an audit committee consisting of the 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 audit committee held two meetings during the year.

Report of the Directors *(continued)*

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

15 April 2003