

## 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 2004.

### Principal activities

The principal activity of the Company is investment holding.

The principal activities of the Group consist of the import and distribution of cement in Hong Kong, the manufacture and distribution of cement and slag powder in other areas of the People's Republic of China ("Mainland China") and the provision of cement handling services in the Philippines. Through its associates, the Group is also engaged in the production and distribution of ready-mixed concrete in Hong Kong, Mainland China and Brunei. There were no significant changes in the nature of the Group's principal activities during the year.

### Results and dividends

The Group's profit for the year ended 31 December 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 30 to 77.

An interim dividend of HK2.0 cents per ordinary share was paid during the year. The board of directors recommends the payment of a final dividend of HK0.5 cent and a special dividend of HK3.5 cents per ordinary share in respect of the year, to shareholders on the register of members on 27 May 2005. This recommendation has been incorporated in the financial statements as an allocation of share premium within the capital and reserves section in the balance sheet.

### Summary financial information

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

### Results

	<b>2004</b>	Year ended 31 December			
	<i>HK\$'000</i>	2003	2002	2001	2000
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
					(Restated)
TURNOVER	<b>315,385</b>	253,246	277,236	671,355	651,090
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<b>328,132</b>	60,007	(584,636)	96,561	(311,791)

## Report of the Directors (continued)

### Assets, liabilities and minority interests

	2004 HK\$'000	2003 HK\$'000	31 December 2002 HK\$'000	2001 HK\$'000	2000 HK\$'000 (Restated)
TOTAL ASSETS	<b>1,923,726</b>	1,578,635	1,415,119	1,369,264	1,277,432
TOTAL LIABILITIES	<b>(674,276)</b>	(656,197)	(552,141)	(561,179)	(464,739)
MINORITY INTERESTS	<b>(100,648)</b>	(71,681)	(68,500)	(63,842)	(74,424)
	<b>1,148,802</b>	850,757	794,478	744,243	738,269

### 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

There were no movements in the Company's authorised and issued share capital during the year. Details of movements in the Group's share options during the year, together with the reasons therefor, are set out in note 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 (2004 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

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 27 to the financial statements and in the consolidated summary statement of changes in equity.

### Distributable reserves

At 31 December 2004, 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 (2004 Revision) of the Cayman Islands, amounted to HK\$1,020,584,000. 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.

## Report of the Directors *(continued)*

### 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 (resigned on 1 September 2004)

#### Non-executive directors

HUI-BON-HOA Khien Piau, Pierre

HSIAO Yin-Yi (appointed on 20 April 2005)

CHIANG Cheng Hsiung (resigned on 1 January 2005)

CHEN Chi Hsiung (resigned on 1 January 2005)

#### Independent non-executive directors

LIAO Poon Huai, Donald

SHAN Weijian

CHUNG Kuohsien, David (appointed on 30 September 2004)

In accordance with articles 99 and 116 of the Company's articles of association, KOO Cheng Yun, Leslie, CHUNG Kuohsien, David and HSIAO Yin Yi will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from LIAO Poon Huai, Donald, SHAN Weijian and CHUNG Kuohsien, David and as at 20 April 2005 still considers them to be independent.

### 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 16 to 18 of the annual report.

### Directors' service contracts

No director 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 statutory compensation.

### Directors' remuneration

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

## Report of the Directors *(continued)*

### Directors' interests in contracts

Except as further detailed in note 31 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance 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 and short positions in shares and underlying shares

At 31 December 2004, the interests and short positions of the directors in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

#### Long positions in ordinary shares of the Company

Name of director	Capacity and nature of interest	Number of shares held	Percentage of the Company's issued share capital
KOO Cheng Yun, Leslie	Directly beneficially owned	1,700,000	0.22
WU Yih Chin	Directly beneficially owned	2,500,000	0.32
HUI-BON-HOA Khien Piau, Pierre	Directly beneficially owned	5,680,000	0.73
HUI-BON-HOA Khien Piau, Pierre	Through spouse or minor children	4,752,000	0.61
		14,632,000	1.88

The interests of the directors in the share options of the Company are separately disclosed in note 26 to the financial statements.

## Report of the Directors (continued)

### Directors' interests and short positions in shares and underlying shares (continued)

#### Long positions in shares and underlying shares of associated corporations

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

Name of director	Number of shares held, capacity and nature of interest			Total	Percentage of the associated corporation's issued share capital
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation		
KOO Cheng Yun, Leslie	24,822,203	86 (Note 1)	8,500,890 (Note 2)	33,323,179	1.31
WU Yih Chin	484,583	—	—	484,583	0.02
CHIANG Cheng Hsiung	518,543	31,203 (Note 1)	—	549,746	0.02
CHEN Chi Hsiung	356,730	1,042 (Note 1)	—	357,772	0.01
LIAO Poon Huai, Donald	351,233	661,288 (Note 1)	—	1,012,521	0.04
				35,727,801	1.40

\* *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 8,500,890 shares of TCC.*

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

Name of director	Capacity and nature of interest	Number of shares held	Percentage of the associated corporation's issued share capital
HUI-BON-HOA Khien Piau, Pierre	Directly beneficially owned	710	0.02

## Report of the Directors (continued)

## Directors' interests and short positions in shares and underlying shares (continued)

## Long positions in shares and underlying shares of associated corporations (continued)

## (iii) Prosperity Dielectrics Company Limited \*\*

Name of director	Capacity and nature of interest	Number of shares held	Percentage of the associated corporation's issued share capital
KOO Cheng Yun, Leslie	Directly beneficially owned	1,040	—
CHIANG Cheng Hsiung	Directly beneficially owned	23,090	0.02
		24,130	0.02

## (iv) Taiwan Cement Engineering Company Limited \*\*

Name of director	Capacity and nature of interest	Number of shares held	Percentage of the associated corporation's issued share capital
CHIANG Cheng Hsiung	Directly beneficially owned	25,517	0.04

## (v) Ta-Ho Maritime Corporation \*\*

Name of director	Capacity and nature of interest	Number of shares held	Percentage of the associated corporation's issued share capital
CHIANG Cheng Hsiung	Directly beneficially owned	48,988	0.03
	Through spouse or minor children	110,939	0.07
		159,927	0.10
CHEN Chi Hsiung	Directly beneficially owned	17,403	0.01
	Through spouse or minor children	17,403	0.01
		34,806	0.02

\*\* Subsidiaries of the ultimate holding company of the Company

## Report of the Directors (continued)

### Directors' interests and short positions in shares and underlying shares (continued)

#### Long positions in shares and underlying shares of associated corporations (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, as at 31 December 2004, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

#### Directors' rights to acquire shares or debentures

Apart from the details as disclosed under the heading "Directors' interests and short positions in shares and underlying shares" above and in the share option scheme disclosures in note 26 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 minor children, or were any such rights exercised by them; or was the Company, or any of its holding companies, fellow subsidiaries and subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

### Substantial shareholders' and other persons' interests in shares and underlying shares

As at 31 December 2004, the following interests of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital	Number of share options held
TCC International Limited	Directly beneficially owned	560,336,000	72.50%	—
TCC*	Through a controlled corporation	560,336,000	72.50%	—

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

All the interests stated above represent long positions. Save as disclosed above, as at 31 December 2004, no person, other than the directors of the Company, whose interests are set out in the section headed "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## Report of the Directors *(continued)*

### Major customers and suppliers

In the year under review, sales to the Group's largest customer and its five largest customers accounted for approximately 16.6% and 41.8% of the Group's total sales revenue, respectively. Purchases from the Group's largest supplier and its five largest suppliers accounted for approximately 42.3% and 65.7% 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 TCC, the Group's largest supplier and the Company's ultimate holding company. 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 continuing connected transactions

Related party transactions, which fall within the definition stipulated in the Hong Kong Statement of Standard Accounting Practice 2.120 ("SSAP 20") "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 items (i) to (iii) to the financial statements also constitute continuing connected transactions as defined under Chapter 14A of the Listing Rules.

The directors have reviewed the following continuing connected transactions under which a conditional waiver from strict compliance with the continuing connected transaction requirements as set out in Chapter 14A 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;  
and
- (iv) sale of slag powders to a minority shareholder of a subsidiary.

The directors, including the independent non-executive directors, confirmed that these continuing 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 continuing 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 stated in (i) above; and
- (e) within an annual limit of the higher of HK\$10 million and 3% of the book value of the consolidated net tangible assets of the Group as disclosed in the latest published audited accounts in respect of the transaction stated in (iv) above.

Details of the continuing connected transactions set out in (i) to (iii) above, which also constitute related party transactions, are set out in note 30 to the financial statements.

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

	2004 HK\$'000	2003 HK\$'000
Sale of slag powder to a minority shareholder of the same subsidiary referred to in (iv) above	4,173	2,963

Notes:

*The sale of slag powders to the minority shareholder for the year ended 31 December 2004 did not exceed an annual limit of the higher of HK\$10 million and 3% of the book value of the consolidated net tangible assets of the Group as disclosed in the latest published audited accounts. The transactions were entered into on terms no less favourable than those available from independent third parties.*

*The basis of the pricing policies for this type of continuing connected transactions is set out in greater detail in a circular to the shareholders of the Company dated 5 December 2003.*

### Disclosures pursuant to Rule 13.21 of the Listing Rules

In accordance with the disclosure requirements of Rule 13.21 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 19 March 2004 between the Company and a bank, relating to a one-year revolving loan facility of HK\$40,000,000, a termination event would arise if TCC, 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 the 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) TCC, 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.

## Report of the Directors *(continued)*

### Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

### 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 throughout the accounting period covered by the annual report and up to the date of this report. Independent non-executive directors are appointed subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the provisions of the Company's articles of association.

### Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers of the Model Code as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company's directors, the directors have complied with the required standard set out in the Model Code, throughout the accounting period covered by the annual report.

### 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 compliance with Rule 3.21 of the Listing Rules 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.

### 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

20 April 2005