

Report of the Directors

The Directors submit their report and the audited accounts for the year ended 31st December 2000, which are set out on pages 14 to 37.

PRINCIPAL ACTIVITY AND RESULTS

The Hong Kong Aircraft Engineering Company Limited Group is primarily engaged in the business of commercial aircraft overhaul and maintenance. Its operations are carried out principally in Hong Kong. The results of the Group are set out in the consolidated profit and loss account on page 14.

TEN YEAR FINANCIAL SUMMARY

A ten year financial summary of the results and of the assets and liabilities of the Group is shown on pages 1 and 2.

DIVIDENDS

The Directors recommend the payment of a final dividend of HK\$0.38 per ordinary share for the year ended 31st December 2000 which, together with the interim dividend of HK\$0.23 per ordinary share paid on 25th September 2000, makes a total dividend for the year of HK\$0.61 per ordinary share. This represents a total distribution for the year of HK\$105.7 million. Subject to the approval of the 2000 final dividend by the shareholders at the annual general meeting on 15th May 2001, it is expected that the dividend will be paid on 21st May 2001 to shareholders registered on 15th May 2001. The shareholders' register will be closed from 7th May 2001 to 15th May 2001, both dates inclusive.

RESERVES

Movements in the reserves of the Company and the Group during the year are set out in note 21 to the accounts.

ACCOUNTING POLICIES

The principal accounting policies of the Group are set out in note 2 to the accounts.

DONATIONS

During the year the Company and its subsidiary made donations for charitable purposes totalling HK\$0.5 million.

FIXED ASSETS

Movements of fixed assets are shown in note 14 to the accounts.

SIGNIFICANT TRANSACTIONS WITH A RELATED COMPANY

Various contracts in relation to the maintenance and overhaul of Cathay Pacific Airways Limited's aircraft and related equipment, which in total are significant and represented approximately 37% of the Group's turnover in 2000, exist between the Group and Cathay Pacific Airways Limited. These contracts have all been concluded on normal commercial terms in the ordinary and usual course of business of the Group and Cathay Pacific Airways Limited.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 20 to the accounts.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

During the year under review, the Company repurchased 2,106,300 ordinary shares of the Company on The Stock Exchange of Hong Kong Limited at an aggregate price of HK\$27,610,525 before expenses. All of these shares were subsequently cancelled. Details of the repurchases are as follows:

Month of the Repurchase	Total Number of Ordinary Shares Repurchased	Highest Price Paid Per Share (HK\$)	Lowest Price Paid Per Share (HK\$)	Aggregate Price Paid (HK\$)
May 2000	218,800	12.80	11.90	2,733,261
June 2000	1,159,600	14.80	10.70	14,806,244
July 2000	228,400	14.95	14.60	3,397,160
August 2000	232,700	15.00	14.00	3,398,100
September 2000	266,800	12.50	12.15	3,275,760
	2,106,300			27,610,525

In addition, during the year, the Company received an irrevocable offer from I.G. International Management Limited (on behalf of the beneficial owners) to sell to the Company 16,000,000 ordinary shares of Hong Kong Aircraft Engineering Company Limited at HK\$15.25 per share for a total consideration of HK\$244,000,000 before expenses (the "Share Repurchase"). The 16,000,000 ordinary shares represented approximately 8.74% of the issued capital of the Company prior to completion of the Share Repurchase. At an extraordinary general meeting held on Wednesday, 25th October 2000, the Share Repurchase was approved by the disinterested shareholders (who excluded I.G. International Management Limited and its associates and parties acting in concert with any of them). The shares were repurchased and were treated as cancelled as from Friday, 27th October 2000.

The repurchases of the Company's shares were considered by Directors to be in the long-term interests of shareholders to the extent that they would result in increases in earnings per share and the return on shareholders' capital and would not weaken the Company's balance sheet or its ability to make other investments.

Apart from the above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the shares in the Company during the year.

AGREEMENT FOR SERVICES

Under an agreement between the two parties, the Company reimburses costs and pays fees to John Swire & Sons Limited in exchange for services provided. This agreement can be terminated by either party giving not less than 12 months notice to take effect on 31st December 2002 or 31st December in any subsequent year. As a Director and shareholder of John Swire & Sons Limited, Peter Johansen is interested in this agreement.

MAJOR CUSTOMERS AND SUPPLIERS

67% of sales and 29% of purchases during the year were attributable to the Group's five largest customers and suppliers respectively. 37% of sales were made to the Group's largest customer, Cathay Pacific Airways Limited while 12% of purchases were made from the largest supplier, Boeing Commercial Airplanes Group.

No Director, their associates or any shareholder who to the knowledge of the Directors owns more than 5% of the Company's issued share capital (other than in respect to Cathay Pacific Airways Limited) has an interest in the customers or suppliers disclosed above.

DIRECTORS

The names of the present Directors of the Company are listed on pages 3 and 4 of this report. Of these, Keith Law and Marven Bowles were appointed Directors of the Company on 1st April 2000 and 2nd October 2000 respectively. In addition, Andrew Hoad and Peter Kilgour served as Directors of the Company until their resignations on 1st April 2000 and 2nd October 2000 respectively. The remaining Directors served throughout the calendar year 2000.

At various times during the year, Chris Gibbs and The Hon Michael Kadoorie were alternate Directors.

Article 93 of the Company's Articles of Association provides for all Directors to retire at the third annual general meeting following their election by ordinary resolution. In accordance therewith Peter Johansen and David Turnbull retire this year and being eligible, offer themselves for re-election.

Marven Bowles having been appointed to the Board under Article 91 of the Articles of Association of the Company since the last annual general meeting, also retires and, being eligible, offers himself for re-election.

No Director has a service contract with the Company that is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

Details of Directors' remuneration are provided in note 4 to the accounts.

CORPORATE GOVERNANCE

The Company has complied throughout the year with the Code of Best Practice as set out in the Listing Rules (Main Board) of The Stock Exchange of Hong Kong Limited.

DIRECTORS' INTERESTS

At 31st December 2000, the interests of the Directors in the shares of the Company, as recorded in the register maintained under section 29 of the Securities (Disclosures of Interests) Ordinance (SDI) were as follows:

	Personal Interests	Other Interests	Family Interests	Total
The Hon Michael Kadoorie (alternate Director)	–	3,782,886*	–	3,782,886
Dinty Dickson Leach	90,000	–	–	90,000
Stephen Lau Kwong Chuen	–	–	2,000	2,000
John Paterson	8,000	–	–	8,000

* *By virtue of the SDI, The Hon Michael Kadoorie and his family were deemed to be interested in 3,782,886 shares in the Company, which are held through discretionary trusts.*

Neither during nor prior to the year under review, has any right been granted to, or exercised

by, any Director of the Company, or to or by the spouse or minor child of any Director, to subscribe for shares, warrants or debentures of the Company.

Other than as stated above, the Directors of the Company held no interests, whether beneficial or non-beneficial, in the share capital or warrants of the Company or its associated corporations.

At no time during the year did any Director, other than as stated in this report, have a beneficial interest, whether directly or indirectly, in a contract to which the Company, or any of its associated corporations was a party, which was of significance and in which the Director's interest was material.

At no time during the year was the Company, or any of its associated corporations, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 16(1) of the SDI shows that at 31st December 2000, the Company had been notified of the following interests, being 10% or more of the Company's issued share capital.

	Number of Shares	
John Swire & Sons Limited	98,848,703	
John Swire & Sons (H.K.) Limited	98,848,703) Duplications of John Swire
Swire Pacific Limited	98,848,703) & Sons Limited's holding
Cathay Pacific Airways Limited	45,649,686)

AUDITORS

A resolution for the re-appointment of PricewaterhouseCoopers as auditors of the Company is to be proposed at the forthcoming annual general meeting. PricewaterhouseCoopers replaced Price Waterhouse in 1999 following their merger with Coopers & Lybrand.

By order of the Board

David Turnbull

Chairman

Hong Kong, 6th March 2001