

DIRECTORS' REPORT

The Directors have pleasure in presenting to shareholders their report for the year ended 31 December 2000.

PRINCIPAL ACTIVITIES

The principal activity of the Company is holding its subsidiary companies and the principal activities of its subsidiary companies and associated companies and their major areas of operation are set out in the Review of Operations on pages 6 to 18.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2000 are set out in the consolidated profit and loss account on page 53. The following tables give an analysis by principal activity of turnover and contribution to the Group's profit from consolidated activities before net finance charges as required in the Listing Rules. It should be noted that these figures excluded income from associated companies which form a substantial part of the Company's business:

<i>in HK\$ million</i>	<i>Group Turnover</i>		<i>Profit from Consolidated Activities before Net Finance Charges</i>	
	2000	1999	2000	1999
<i>By principal activity :</i>				
Trading & Distribution				
Motor vehicles and related services	4,614	3,343	274	165
Trading	4,260	4,113	20	114
Power and Civil Infrastructure	3,723	17,079	2,174	2,208
Industrial Manufacturing	2,339	1,563	124	81
Communications	232	-	51	-
Property	266	232	178	143
Others	574	94	208	70
Less : General & Administration Expenses	-	-	(584)	(522)
	16,008	26,424	2,445	2,259

<i>in HK\$ million</i>	<i>Group Turnover</i>	
	2000	1999
<i>By geographical area :</i>		
Hong Kong	8,361	18,337
China	5,897	6,805
Japan	471	537
Others	1,279	745
	<u>16,008</u>	<u>26,424</u>

DIVIDENDS

The Directors declared an interim dividend of HK\$0.20 per share in respect of the year ended 31 December 2000 which was paid on 22 September 2000. The Directors recommended, subject to the approval of the shareholders at the forthcoming Annual General Meeting, the payment of a final dividend of HK\$0.65 per share in respect of the year ended 31 December 2000 payable on 21 May 2001 to shareholders on the Register of Members at the close of business on 15 May 2001.

RESERVES

The amounts and particulars of transfer to and from reserves during the year are set out in note 20 to the accounts.

DONATIONS

Donations made by the Group during the year amounted to HK\$4 million .

FIXED ASSETS

Movements of fixed assets are set out in note 11 to the accounts.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of purchases and sales with the Group's suppliers and customers are as follows:

	2000	1999
	%	%
Purchases		
- the largest supplier	12	10
- five largest suppliers combined	27	26

The aggregate percentage of sales to the Group's five largest customers is less than 30%.

No Directors, their associates or shareholders (which to the knowledge of the Directors own more than 5% of the Company's share capital) were interested at any time in the year in the above suppliers or customers.

SUBSIDIARY COMPANIES

The names of the principal subsidiary companies, their principal places of operation, their countries of incorporation and particulars of their issued share capital are set out in note 27 to the accounts.

ISSUE OF DEBT SECURITIES

On 15 February 1996, the Company issued and sold US\$100 million aggregate principal amount of its 7.37% Senior Notes due 2006 ("Senior Notes") to financial institutions pursuant to note purchase agreements dated 15 February 1996. All of the Senior Notes remained outstanding at the end of the year.

On 20 August 1997, the Company issued and sold Japanese Yen 9.5 billion floating rate bond due 2002 ("Yen Bond"), for general working capital purposes, to an investor pursuant to the subscription agreement dated 15 August 1997. All of the Yen Bond remained outstanding at the end of the year.

In October 1998, CITIC Pacific Finance Limited, a wholly owned subsidiary of the Company, issued and sold US\$125 million commercial paper notes ("Commercial Paper Notes"), for general working capital purposes, to investors pursuant to the commercial paper dealer agreement dated 30 September 1998. All of the Commercial Paper Notes have been repaid in September 2000.

Save as aforesaid, none of the other subsidiary companies have issued any debt securities.

ISSUE OF SHARES

On 24 February 2000, a total of 100,000,000 shares of HK\$0.40 each were allotted and issued at HK\$40.38 per share to Westminster Investment Inc. (“Westminster”) for a total of HK\$4,038 million. These shares were issued pursuant to a top-up subscription agreement made on 10 February 2000 between Westminster and the Company relating to the subscription of shares in the Company subsequent to the placing, through BNP Prime Peregrine Securities Limited (“BNP Prime Peregrine”) and BOCI Asia Limited of 80,000,000 existing shares (together with an over-allotment option of an additional 20,000,000 shares granted to BNP Prime Peregrine) of the Company to independent investors at HK\$40.38 per share. The net proceeds of the subscription, amounting to about HK\$3,941 million, would be used mainly for the acquisition of the telecommunications equipment and the construction of auxiliary facilities to complement the fixed optical fibre network acquired by the Group and for future possible acquisitions in the People’s Republic of China (“PRC”) in accordance with the business strategy of the Group. The closing price of the shares of the Company as quoted on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) on 10 February 2000 was HK\$42.50 per share.

BORROWINGS

Particulars of borrowings of the Group are set out in note 21 to the accounts.

DIRECTORS

The Directors in office during the financial year ended 31 December 2000 were:

Mr Larry Yung Chi Kin

Mr Henry Fan Hung Ling

Mr Vernon Francis Moore

Mr Peter Lee Chung Hing

Mr Robert Ernest Adams

Mr Patrick W S Chung

(resigned on 1 January 2001)

Mr Zhang Yichen

(appointed on 1 March 2000)

Mr Yao Jinrong

(appointed on 16 March 2000)

Mr Chang Zhenming

(appointed on 16 March 2000)

Mr Li Shilin

(appointed on 16 March 2000)

Mr Carl Yung Ming Jie

(appointed on 16 March 2000)

Mr Willie Chang

Mr Hamilton Ho Hau Hay

Mr Alexander Reid Hamilton

Mr Hansen Loh Chung Hon

Mr Norman Ho Hau Chong

Mr Chau Cham Son

Mr André Desmarais

Pursuant to Article 104(A) of the New Articles of Association of the Company, Messrs Larry Yung Chi Kin, Peter Lee Chung Hing, Willie Chang, Hamilton Ho Hau Hay, Chau Cham Son and André Desmarais shall retire by rotation in the forthcoming Annual General Meeting and all, being eligible, offer themselves for re-election.

Biographical details of directors may be found on pages 30 to 32.

MANAGEMENT CONTRACT

The Company entered into a management agreement with China International Trust & Investment Corporation Hong Kong (Holdings) Limited (“CITIC HK”) on 11 April 1991 but with retrospective effect from 1 March 1990 in which CITIC HK agreed to provide management services to the Company and its subsidiary companies for a management fee calculated on a cost basis to CITIC HK payable quarterly in arrears. The management agreement is terminable by two months’ notice by either party. Messrs Larry Yung Chi Kin, Henry Fan Hung Ling, Vernon Francis Moore and Chang Zhenming had indirect interests in the management agreement as they are directors of CITIC HK. A copy of the management agreement will be available for inspection at the Annual General Meeting of the Company to be held on 15 May 2001.

DIRECTORS’ INTERESTS IN CONTRACTS OF SIGNIFICANCE

Mr Larry Yung Chi Kin, a director of the Company, is interested in the following agreements as he has a 20% shareholding in Lucky Zone Enterprises Inc. (“Lucky Zone”), the immediate holding company of Bright Generation Holdings Inc. (“Bright Generation”).

Two agreements both dated 5 January 2000 which were subsisting as at 31 December 2000 were entered into by Bright Generation with 廣州軍區通信支援國家經濟建設辦公室(“廣州軍區”) and Glory Supreme Engineering Limited respectively pursuant to which Bright Generation, through six sino-foreign co-operative joint venture companies which are economically 100% owned by Bright Generation (“the Co-operative Joint Ventures”), agreed to invest in a fixed optical fibre network installation in the PRC aggregating 32,099 km when completed (“the Network”) for an amount of RMB2,000 million. Bright Generation also agreed to procure the Co-operative Joint Ventures to enter into maintenance agreements as referred therein under which a payment of a maximum of RMB30,000,000 per year will be made by the Co-operative Joint Ventures for the maintenance of the Network for 5 years.

Save as aforesaid, none of the Directors of the Company has or at any time during the year had, an interest which is or was material, either directly or indirectly, in any contract with the Company or any of its subsidiary companies, which was significant in relation to the business of the Company, and which was subsisting at the end of the year or which had subsisted at any time during the year.

CONNECTED TRANSACTIONS

Connected transactions disclosed in accordance with Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange are as follows:

1. Pursuant to the agreement dated 9 October 1996 made between the Company, CITIC HK, Kerry Trading Co. Limited, The Development Bank of Singapore Limited (collectively “the Parties”) and Cheer First Limited (“Cheer First”), the Parties being the shareholders of Cheer First agreed to make loans to Cheer First which provided loan finance to Goldon Investment Limited (“Goldon”) for developing CITIC Tower. CITIC HK being a substantial shareholder of the Company and regarded as its connected person holds 25% interest in Cheer First. The loan was made on normal commercial terms and in proportion to each party’s shareholding in Cheer First. It was with no fixed repayment date and was interest bearing at the rate per annum equivalent to Hong Kong Inter-Bank Offered Rate (“HIBOR”). As at 31 December 2000, the amount of shareholders’ loan due by Cheer First to the Company was HK\$2,161 million.
2. An agreement dated 18 December 2000 for the refinancing of a loan in the amount of HK\$2.4 billion was made between Treasure Trove Limited (“Treasure Trove”), CITIC HK, the Company and various financial institutions named therein who agreed to provide a loan for HK\$2.4 billion to Treasure Trove guaranteed by CITIC HK and the Company severally in the proportions of 25/65 and 40/65 respectively. The loan is unsecured, interest bearing at 0.66% above HIBOR, repayable in one lump sum 60 months after the date of the agreement. Treasure Trove is held by CITIC HK and the Company on equal basis and is used to finance Goldon to develop CITIC Tower. A contribution agreement has been made between CITIC HK and the Company, which obliges the Company and CITIC HK to account to each other if they make payments under their above guarantees and the proportions which those payments bear to each other are not the same as the proportions which their equity interests in Goldon bear to each other. The payments will be of such amounts as are necessary to ensure that the burden of the payments under the guarantees are shared between the Company and CITIC HK in the same proportions as those which their equity interests in Goldon bear to each other.

3. From time to time during the year, the Group executed guarantees to banks to secure the facilities granted to Shanghai DCH Jiangnanfeng Co., Ltd. (“Jiangnanfeng”), a company engaged in the production and selling of chickens and related food products, as its general working capital. Jiangnanfeng is 76.77% owned by Regal Heights Limited (“Regal Heights”, a 60% subsidiary of Dah Chong Hong Holdings Limited) with the remaining interest held by individual third parties which are connected to the Group by virtue only of their substantial shareholding in Jiangnanfeng. As at 31 December 2000, total facilities granted to Jiangnanfeng was RMB47 million (equivalent to approximately HK\$44.2 million) secured by (i) corporate guarantees given by Dah Chong Hong Group and the 40% partner in Regal Heights amounting to RMB6 million (equivalent to approximately HK\$5.64 million) and RMB4 million (equivalent to approximately HK\$3.76 million) respectively, and (ii) corporate guarantees given by Dah Chong Hong Group amounting to RMB37 million (equivalent to approximately HK\$34.8 million), in turn the 40% partner in Regal Heights shared 40% of such liabilities by giving irrevocable letters of credit issued by a bank in favour of Dah Chong Hong Group.
4. From time to time during the year, the Company provided finance to Lucky Zone and its subsidiaries by way of shareholders’ loan or corporate guarantee. Lucky Zone and its subsidiaries are owned by the Company, China International Trust and Investment Corporation (“CITIC Beijing”) and Mr Larry Yung Chi Kin in the proportions 60/20/20 and are engaged in the optical fibre network investment in the PRC. CITIC Beijing is a substantial shareholder of the Company whereas Mr Larry Yung Chi Kin is a substantial shareholder and director of the Company. The shareholders’ loan was made in proportion to the Company’s shareholding in such companies, with no fixed repayment date and is non-interest bearing. The guarantee given by the Company was a several guarantee proportional to the Company’s shareholding in such companies. As at 31 December 2000, the amount of shareholders’ loan due by Lucky Zone and its subsidiaries to the Company was HK\$744 million whereas the guarantees executed by the Company to secure the banking facilities granted to the subsidiaries of Lucky Zone were RMB18 million and US\$12.6 million (equivalent to an aggregate amount of approximately HK\$115 million). The Company has also executed a guarantee up to 60% of the liability of one of the subsidiaries of Lucky Zone under a lease agreement for leasing certain equipment at the contract sum of approximately US\$15.5 million (equivalent to approximately HK\$120.9 million).
5. On 22 August 2000, one of the PRC subsidiaries of the Company engaged in the optical fibre network investment in the PRC entered into the following tenancy agreements : -
 - (a) a tenancy agreement with CITIC Beijing as the landlord in respect of the premises at Units L101-L110 and LB101-LB107, Capital Mansion, Beijing, PRC with a floor area of 2,863 square metres for a term of 6 years commencing from 1 September 2000 at RMB558,285 (equivalent to approximately HK\$524,788) per month inclusive of air-conditioning charges and management fee; and

- (b) a tenancy agreement with 上海中信泰富廣場有限公司, a 80% owned subsidiary of CITIC HK, as the landlord in respect of the premises at Level 7, CITIC Square, Shanghai, PRC with a floor area of 1,966 square metres for a term of 6 years commencing from 1 August 2000. Rentals for the first 3 years will be at US\$25,408 (equivalent to approximately HK\$198,182) per month inclusive of air-conditioning charges and management fee amounting to US\$7,470 (equivalent to approximately HK\$58,266). The said air-conditioning charges and management fee will be subject to review by the landlord. Rentals for the fourth to the sixth year will be negotiated between the parties at the end of the third year.

The above rentals were reached on normal commercial terms following arm's length negotiation with reference to the prevailing market rent of the respective buildings.

During the year ended 31 December 2000, 中信網絡管理有限公司(“中信網絡”), a wholly owned subsidiary of CITIC Beijing, provided management services (“the Services”) to certain PRC subsidiaries of the Company which were engaged in the optical fibre network investment. The PRC subsidiaries paid for the reasonable costs and expenses incurred by 中信網絡 in relation to the provision of the Services. Such payment was calculated on the actual cost basis. For the year ended 31 December 2000, the total amount of the Services provided by 中信網絡 to the PRC subsidiaries was RMB6,811,203 (equivalent to approximately HK\$6,422,284).

An independent committee of the board of Directors (comprising only of independent non-executive Directors) had reviewed the transactions made during the year ended 31 December 2000 and confirmed that:

- the Services had been entered into by the PRC subsidiaries in the ordinary and usual course of their business;
- the Services had been entered into on terms that were fair and reasonable so far as the shareholders of the Company were concerned;
- the Services had been entered into in accordance with the terms of the agreement governing such transactions; and
- the Services had been entered into such that the aggregate amount for the year ended 31 December 2000 did not exceed 3% of the net tangible asset value of the Group as disclosed in the Company's 1999 annual report (“the Services Cap”).

The auditors of the Company had also confirmed to the board of Directors that (a) the Services had received the approval of the Directors; (b) the Services had been entered into in accordance with the terms of the agreement relating to the transactions; and (c) the Services had been entered into such that the Services Cap had not been exceeded.

DIRECTORS' INTERESTS IN SECURITIES OF THE COMPANY

As at 31 December 2000, the following were the interests in shares of the Company or associated corporations as recorded in the register required to be kept under section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"):

	<i>Number of Shares</i>				<i>Total</i>
	<i>Personal interests</i>	<i>Corporate interests</i>	<i>Family interests</i>	<i>Other interests</i>	
CITIC Pacific Limited					
Larry Yung Chi Kin		400,381,000			400,381,000
Henry Fan Hung Ling		43,000,000			43,000,000
Vernon Francis Moore				3,200,000 (Note 1)	3,200,000
Peter Lee Chung Hing	500,000				500,000
Robert Ernest Adams	550,000				550,000
Patrick W S Chung	550,000				550,000
Hansen Loh Chung Hon	1,050,000	500,000 (Note 2)	500,000 (Note 2)		1,550,000
André Desmarais	13,800	100,230,000			100,243,800 (Note 3)
Cathay Pacific Airways Limited					
Hansen Loh Chung Hon	450,000				450,000

Note 1: Deemed interests held by the relevant Director and his family as contingent beneficiaries of a discretionary trust.

Note 2: The corporate interests and the family interests of the relevant Director duplicate each other as the 500,000 shares are held through a company in which the relevant Director and his family are interested.

Note 3: In addition to the aforesaid, the relevant Director is also one of the trustees of a Canadian discretionary trust which controls Canadian companies which owns 24,000 shares of the Company.

As at 31 December 2000, none of the Directors has any other interests in the equity or debt securities of the Company or any associated corporations (within the meaning of the SDI Ordinance) which have been entered in the register kept by the Company pursuant to section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2000, the interests of substantial shareholders, other than the Directors of the Company, in the equity securities of the Company as recorded in the register required to be kept under section 16(1) of the SDI Ordinance are as follows:

<i>Name</i>	<i>Number of Shares of the Company</i>
CITIC Beijing	632,066,285
CITIC HK	632,066,285
Heedon Corporation	498,424,285
Honpville Corporation	310,988,221
Rockhampton Investments Limited	292,000,000
Bloomfield Enterprises Corp	292,000,000
Earnplex Corporation	292,000,000

CITIC HK is a substantial shareholder of the Company indirectly through the following wholly owned subsidiary companies by virtue of section 8(2) of the SDI Ordinance as follows:

<i>Name of Subsidiary Companies of CITIC HK</i>	<i>Number of Shares of HK\$0.40 each</i>
Affluence Limited	43,266,000
Winton Corp	30,718,000
Westminster	101,960,000
Jetway Corp	22,500,000
Cordia Corporation	32,258,064
Honpville Corporation	310,988,221
Hainsworth Limited	80,376,000
Southpoint Enterprises Inc	10,000,000

Each of Affluence Limited, Winton Corp, Westminster, Jetway Corp, Cordia Corporation, Honpville Corporation, Hainsworth Limited and Southpoint Enterprises Inc holds the shares of the Company beneficially. Accordingly, Honpville Corporation is a substantial shareholder of the Company.

CITIC Beijing is the direct holding company of CITIC HK. CITIC HK is the direct holding company of Heedon Corporation, Hainsworth Limited, Affluence Limited and Barnsley Investments Limited. Heedon Corporation is the direct holding company of Winton Corp, Westminster, Jetway Corp, Kotron Company Ltd and Honpville Corporation and Kotron Company Ltd is the direct holding company of Cordia Corporation. Barnsley Investments Limited is the direct holding company of Southpoint Enterprises Inc. Accordingly, the interests of CITIC Beijing in the Company duplicate the interests of CITIC HK in the Company. The interests of CITIC HK in the Company duplicate the interests in the Company of all its direct and indirect subsidiary companies as described above. The interests of Heedon Corporation in the Company duplicate the interests in the Company of all its direct and indirect subsidiary companies as described above. The interests of Barnsley Investments Limited in the Company duplicate the interests in the Company of its direct subsidiary company as described above and the interests of Kotron Company Ltd in the Company duplicate the interests in the Company of its direct subsidiary company as described above.

Rockhampton Investments Limited is a wholly owned subsidiary company of Bloomfield Enterprises Corp, which in turn is a wholly owned subsidiary company of Earnplex Corporation. Accordingly, the interests of Earnplex Corporation duplicate the interests in the Company of its direct and indirect subsidiary companies as described above. Mr Larry Yung Chi Kin is the owner of the entire issued share capital of Earnplex Corporation. The interests in the Company of Rockhampton Investments Limited represent part of the corporate interests of Mr Larry Yung Chi Kin as mentioned in the above section of "Directors' Interests in Securities of the Company".

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31 December 2000, the Company made the following repurchases of its own shares on the Stock Exchange for the purpose of enhancing its earnings per share:

<i>Month/Year</i>	<i>Number of Shares Repurchased</i>	<i>Price Per Share</i>		<i>Aggregate Price Paid HK\$ million</i>
		<i>Highest HK\$</i>	<i>Lowest HK\$</i>	
January 2000	1,041,000	33.10	32.90	34
March 2000	650,000	41.80	41.40	27
April 2000	500,000	36.60	36.50	18
September 2000	13,612,000	37.20	30.70	453
October 2000	8,064,000	33.60	28.80	254
November 2000	7,500,000	33.20	26.55	218

These repurchased shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium payable on repurchase was charged against retained profit. An amount equivalent to the nominal value of the shares cancelled of HK\$13 million was transferred from retained profit to capital redemption reserve.

Save as disclosed above, neither the Company nor its subsidiary companies has purchased or sold any of the Company's shares during the year ended 31 December 2000 and the Company has not redeemed any of its shares during the year ended 31 December 2000.

The Company adopted the CITIC Pacific Share Incentive Plan 2000 ("the Plan") on 31 May 2000, pursuant to which the Board may invite selected Employees (as defined in the rules of the Plan) to subscribe for options over the Company's shares on payment of HK\$1 per acceptance of such invitation. The subscription price is to be determined by the Board and will not be lower than 100% of the average of the closing prices of the Company's shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant (which is deemed to be the date of the offer) on which there were dealings in the Company's shares on the Stock Exchange. No such invitation has been made as at 31 December 2000.

SERVICE CONTRACTS

As at 31 December 2000, there were no service contracts which were not determinable by the employer within one year without payment of compensation (other than statutory compensation) between any company in the Group and any Director proposed for re-election at the forthcoming Annual General Meeting.

ARRANGEMENTS FOR ACQUISITION OF SHARES OR DEBENTURES

Save as the aforesaid CITIC Pacific Share Incentive Plan 2000, at no time during the year was the Company or any of its subsidiary companies a party or parties to any arrangement 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.

OTHER MATTERS

The following are particulars of other matters which may be material for the appreciation of the state of the Company's affairs by its members:-

On 5 February 2001, a wholly owned subsidiary of the Company, Broadview Investments Holdings Ltd. (“Broadview”) had entered into a share purchase agreement with, inter alia, The Dairy Farm Company, Limited (“Dairy Farm”), pursuant to which Broadview had agreed to acquire Sims Trading Company Limited (“Sims Trading”) from Dairy Farm for HK\$450 million (of which the majority represents net assets such as inventory and accounts receivable). Sims Trading wholesales, distributes and markets foods, beverages and household products in Hong Kong, Mainland China and Macau. The transaction was completed on 28 February 2001.

AUDITORS

The accounts for the year have been audited by PricewaterhouseCoopers who shall retire and, being eligible, shall offer themselves for re-appointment.

PricewaterhouseCoopers replaced Price Waterhouse in 1999 following the merger of Price Waterhouse with Coopers & Lybrand.

CORPORATE GOVERNANCE

During the year, the Company was in compliance with the Code of Best Practice as set out in the Rules Governing the Listing of Securities on the Stock Exchange.

By Order of the Board
Larry Yung Chi Kin *Chairman*
Hong Kong, 19 March 2001