



Directors' Report

The Directors have pleasure in presenting to shareholders their report, together with the audited accounts of the Group for the year ended 31st December 2000.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its subsidiaries and associated companies are set out in notes 10 and 11 to the accounts respectively.

An analysis of the Group's turnover and contribution to operating profit for the year by principal activities is set out in note 2 to the accounts.

The Group's turnover and operating profit are derived from operations based in Hong Kong and therefore no geographical analysis of the Group's turnover and contribution to operating profit is presented.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2000 and the state of the Group's affairs as at that date are set out in the accounts on pages 35 to 58.

The Directors have declared an interim dividend of HK0.6 cent per ordinary share, totalling HK\$19,411,000, which was paid on 4th October 2000.

The Directors recommend the payment of a final dividend of HK0.6 cent per ordinary share, totalling HK\$19,411,000.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 15 to the accounts.

INVESTMENT PROPERTIES

Details of the movements in investment properties are set out in note 9 to the accounts.

Details of the investment properties are shown on page 60 of this annual report.



Directors' Report (cont'd)

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st December 2000, calculated under Section 79B of the Hong Kong Companies Ordinance, amounted to HK\$186,615,000 (1999: HK\$163,645,000).

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years since incorporation is set out on page 59.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

DIRECTORS

The Directors during the year and up to the date of this report are:

Kong Dong (appointed on 21st March 2001)
Wang Guixiang (resigned on 21st March 2001)
Chuang Shih Ping
Zhang Xianlin
Tsang Hing Kwong, Thomas
Xin Wei
Lok Kung Nam*
Hu Hung Lick, Henry*
Ho Tsu Kwok, Charles*
Li Kwok Heem, John*

* *independent Non-Executive Directors*

In accordance with Article 98 of the Company's Articles of Association, Messrs. Zhang Xianlin, Xin Wei, and Lok Kung Nam retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.



Directors' Report (cont'd)

DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out on pages 23 to 26.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its fellow subsidiaries, its subsidiaries or its holding company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

The Group has various on-going connected transactions with its fellow subsidiaries, its immediate holding company and ultimate holding company. Summary of these connected transactions subsisting during the year, which also constitute related party transactions, are set out in note 19 to the accounts.

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has, subject to certain conditions, granted a waiver to the Company from compliance with Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") to disclose details of the licence agreement referred to in note 19(c) to the accounts by press notice and/or to obtain prior independent shareholders' approval.

The independent Non-Executive Directors of the Company reviewed the above transaction and were of the opinion that the transaction had been entered into by the Group:

- (a) in the ordinary course of its business;
- (b) in accordance with the terms of the agreement governing such transaction; and
- (c) on terms that were fair and reasonable so far as the shareholders of the Company were concerned.



Directors' Report (cont'd)

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31st December 2000, none of the Directors nor the chief executive had any interest in shares of the Company according to the register maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance.

Pursuant to the share option scheme adopted by shareholders' resolution of the Company dated 22nd October 1997, the share option period exercisable by the grantees within a period of two years commencing 6 months after the date on which the relevant option is being accepted. It has been mistakenly stated, instead of two years, as three and a half years in the Company's prospectus dated 8th December 1997 and annual reports for the years 1997, 1998 and 1999. An announcement clarifying the mistake was published on 3rd January 2001.

All share options granted on 19th January 1998 pursuant to the aforesaid share option scheme to Executive Directors, Wang Guixiang of 38,830,000 shares, Chuang Shih Ping, Zhang Xianlin, Tsang Hing Kwong, Thomas and Xin Wei of 32,352,000 shares each, have expired in August 2000. None of these options had been exercised prior to their expiry. As at 31st December 2000, no share options granted under the aforesaid share option scheme remained outstanding.

Apart from the above, at no time during the year was the Company, its fellow subsidiaries, its subsidiaries or its holding company a party to any arrangement to enable any Director or chief executive of the Company or his spouse or children under 18 years of age to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

On 4th January 2001, the Board of Directors offered to grant new share options to Executive Directors to subscribe for 198,834,000 shares of HK\$0.10 each in the Company at a subscription price of HK\$1.04 per share. All Executive Directors accepted the options on 11th January 2001.



Directors' Report (cont'd)

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 16(1) of the Securities (Disclosure of Interests) Ordinance shows that as at 31st December 2000, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and chief executive:

Name	No. of ordinary shares
China National Aviation Corporation (Group) Limited	2,268,778,000 (<i>note</i>)
China National Aviation Corporation	2,268,778,000 (<i>note</i>)

Note: The entire issued share capital of China National Aviation Corporation (Group) Limited is beneficially owned by China National Aviation Corporation. Accordingly, the interests of China National Aviation Corporation (Group) Limited and China National Aviation Corporation in the Company duplicate each other.

MANAGEMENT CONTRACTS

On 20th January 2000, the Company entered into a management services agreement with China National Aviation Corporation (Group) Limited (the "CNAC Group") (the "Services Agreement"), pursuant to which CNAC Group agreed to provide secretarial, personnel, accounting and general office administrative services (the "Services") to the Group for a period of two years from 1st January 2000 to 31st December 2001. In return, CNAC Group would be paid by the Company in respect of the Services a monthly fee equivalent to one-fifth of the aggregate expenses incurred by CNAC Group in connection with the employment of staff, provision of facilities and payment of rent and utilities relating to CNAC Group's office at United Centre (the "CNAC Group Expenses") provided that the total fee payable by the Company to CNAC Group under the Services Agreement shall not exceed HK\$18,000,000. The Services Agreement is terminable by three months' notice by either party. New management services agreement in respect of CNAC Group's new office at CNAC House is still under negotiation with CNAC Group.

MAJOR CUSTOMERS AND SUPPLIERS

As set out in the section headed "Principal Activities" above, the Group's turnover and operating profit are mainly derived from its property rental activity.

The percentages of rental income for the year attributable to the Group's five largest customers and the Group's largest customer are 74.5% and 40.3% respectively. The Group has only one principal supplier of services in respect of its property rental activity, which accounts for 59.4% of the total expenses incurred in respect of its rental activity.



Directors' Report (cont'd)

MAJOR CUSTOMERS AND SUPPLIERS (cont'd)

During the year, none of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major customers or supplier noted above except that the Company's ultimate holding company owns effectively 100% interests in two out of the five largest customers, which together contributed 59.5% of the Group's total rental income.

CORPORATE GOVERNANCE

The Company has throughout the year complied with the Code of Best Practice as set out in the Listing Rules, except that independent Non-Executive Directors are not appointed for a specific term as they are subject to retirement by rotation in accordance with the Company's Articles of Association.

An Audit Committee was established in November 1998. The members are Mr. Lok Kung Nam, Dr. Hu Hung Lick and Mr. Li Kwok Heem, John. The principal responsibilities of the Audit Committee include the review and supervision of the Company's financial reporting process and internal controls.

SUBSEQUENT EVENT

Details of the subsequent event are set out in note 20 to the accounts.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment. PricewaterhouseCoopers replaced Price Waterhouse in June 1999 following their merger with Coopers & Lybrand.

On behalf of the Board

Kong Dong
Chairman

Hong Kong, 6th April 2001