



## 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 2001.

### 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 performance for the year by business segments is set out in note 2 to the accounts.

All of the Group's operations and assets are located in Hong Kong.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2001 and the state of the Group's affairs as at that date are set out in the accounts on pages 40 to 69.

The Directors have declared an interim dividend of HK0.6 cent per ordinary share, totalling HK\$19,411,000, which was paid on 10th October 2001.

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 71 of this annual report.

### DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st December 2001, calculated under Section 79B of the Hong Kong Companies Ordinance, amounted to HK\$221,194,000 (2000: HK\$206,026,000).



### FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years since incorporation is set out on page 70.

### 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.

### SHARE OPTIONS

Share options are granted to directors, executives and employees under the share option scheme adopted by written resolution of the shareholders of the Company dated 22nd October 1997 ("Share Option Scheme"). Details of the scheme are as follows:

- The Share Option Scheme is designed to give grantee(s) an interest in preserving and maximizing shareholder value of the Company, as well as to enable the Company to attract and retain individuals with experience and ability and to reward individuals for expected future performance.
- The Directors may, at their discretion, invite employees of the Company and its subsidiaries including executive directors of the Company and its subsidiaries to take up options at HK\$1 per option to subscribe for ordinary shares of HK\$0.10 each in the share capital of the Company ("Shares") at a price calculated in accordance with subscription price described below.
- The maximum number of Shares in respect of which options may be granted (together with options exercised and options then outstanding) under the Share Option Scheme and any other scheme involving the issue or grant of options over Shares or other securities of the Company to, or for the benefit of, directors, executives and/or employees of the Company and its subsidiaries may not exceed such number of Shares as shall represent 10 per cent of the issued shares capital of the Company from time to time, excluding for this purpose Shares issued upon the exercise of options granted pursuant to the Share Option Scheme.



**SHARE OPTIONS (CONT'D)**

- No option may be granted to any one person which, if exercised in full, would result in the total number of Shares already issued and issuable to him under the Share Option Scheme exceeding 25 per cent of the aggregate number of Shares for the time being issued and issuable under the Shares Option Scheme.
- An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period of two years commencing six months after the date on which the option is accepted and expiring on the last day of such two year period or the tenth anniversary of the date on which the Share Option Scheme is adopted by resolution of the Company in general meeting, whichever is the earlier.
- The subscription price for Shares under the Share Option Scheme will be not less than 80 per cent of the average of the closing prices of the Shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of the option or the nominal value of the Shares, whichever is the higher.
- The Share Option Scheme would remain in force for a period of ten years commencing on the date on which it was adopted by resolution of the Company in general meeting.

However, the Stock Exchange amended the requirements, which have come into effect from 1st September 2001, for share option schemes under the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Some of the provisions of the Share Option Scheme do not comply with the new requirements of the Listing Rules. The Board of the Company will propose a new share option scheme to replace the existing Share Option Scheme for the granting of new options in compliance with the new requirements of the Listing Rules which will be tabled for shareholder's approval at the Annual General Meeting to be convened accordingly.

# SHARE OPTIONS (CONT'D)

Details of the share options outstanding as at 31st December 2001 which have been granted under the Share Option Scheme are as follows:

	Options held at 1st January 2001	Options granted during the year	Options exercised during the year	Options held at 31st December 2001	Exercise price HK\$	Grant Date	Exercisable from until	
Directors :								
Wang Guixiang <sup>2</sup>	-	45,890,000 <sup>1</sup>	-	45,890,000	1.04	04/01/2001	12/07/2001	11/07/2003
Kong Dong	-	32,351,800 <sup>2</sup>	-	32,351,800	0.82	24/09/2001	25/03/2002	24/03/2004
Chuang Shih Ping	-	38,236,000 <sup>1</sup>	-	38,236,000	1.04	04/01/2001	12/07/2001	11/07/2003
Zhang Xianlin	-	38,236,000 <sup>1</sup>	-	38,236,000	1.04	04/01/2001	12/07/2001	11/07/2003
Tsang Hing Kwong, Thomas	-	38,236,000 <sup>1</sup>	-	38,236,000	1.04	04/01/2001	12/07/2001	11/07/2003
Xin Wei <sup>3</sup>	-	38,236,000 <sup>1</sup>	-	38,236,000	1.04	04/01/2001	12/07/2001	11/07/2003

## Notes :

- At the date before the options were granted, 4th January 2001, the market value per share was HK\$1.30. The total market value of the options granted to the respective parties, assuming HK\$1.30 per share, was as follows:

HK\$'000

Directors

258,484

The exercise price of the options granted was in accordance with the terms of the Share Option Scheme as stated above.

- At the date before the options were granted, 24th September 2001, the market value per share was HK\$0.77. The market value of the options granted to the respective party, assuming HK\$0.77 per share, was as follows:

HK\$'000

Directors

24,911

The exercise price of the options granted was in accordance with the new requirements of the Listing Rules, which was being the higher of the closing price and the average closing prices for the five trading days immediately preceding the options granted date.

- Messrs. Wang Guixiang and Xin Wei ceased to be directors on 21st March 2001 and 27th March 2002 respectively but remain as employees of the Group in China mainland.



### SHARE OPTIONS (CONT'D)

The Board considers that it is not appropriate to state the value of all options that have been granted under the Share Option Scheme as a number of variables which are crucial for the calculation of the option value have not been determined. Such variables include the subscription price, the exercise period, the projected trading prices of the Shares during the exercise period, the vesting period (if any) and other relevant factors. The Board believes that any calculation of the value of any option would be based on a number of speculative assumptions and therefore not only would such calculation not be meaningful or representative, but it could also potentially be misleading to the shareholders.

As at 31st December 2001, a total of 92,332,400 Shares (representing approximately 2.85% of the issued share capital of the Company) were available for issue under the Share Option Scheme.

### 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 (resigned on 27th March 2002)  
Gu Tiefei (appointed on 27th March 2002)  
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. Chuang Shih Ping, Tsang Hing Kwong, Thomas and Li Kwok Heem, John retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Article 90 of the Company's Articles of Association, Mr. Gu Tiefei retires by rotation at the forthcoming annual general meeting and, being eligible, offer himself for re-election.



### 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 25 to 28.

### 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 20 to the accounts.

The Stock Exchange has, subject to certain conditions, granted a waiver to the Company from compliance with Chapter 14 of the Listing Rules to disclose details of the licence agreement referred to in note 20(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' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31st December 2001, 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.

## DIRECTOR'S RIGHTS TO ACQUIRE SHARES

Pursuant to the Company's share option scheme adopted on 22nd October 1997, the Company granted options to subscribe for the Company's ordinary shares in favour of certain employees including directors, the summary details of the options are as follows:

Directors/ Employees	As at 1st January 2001	Number of share options		As at 31st December 2001
		Granted during the year	Exercised during the year	
Wang Guixiang *	—	45,890,000	—	45,890,000
Kong Dong	—	32,351,800	—	32,351,800
Chuang Shih Ping	—	38,236,000	—	38,236,000
Zhang Xianlin	—	38,236,000	—	38,236,000
Tsang Hing Kwong, Thomas	—	38,236,000	—	38,236,000
Xin Wei *	—	38,236,000	—	38,236,000
	<u>—</u>	<u>231,185,800</u>	<u>—</u>	<u>231,185,800</u>

\* Messrs. Wang Guixiang and Xin Wei ceased to be directors on 21st March 2001 and 27th March 2002 respectively but remain as employees of the Group in China mainland.

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.

### 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 2001, 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	2,280,852,000 ( <i>note</i> )
China National Aviation Corporation	2,280,852,000 ( <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

Pursuant to a management services agreement dated 20th January 2000 entered into with CNAC Group (the "Management Services Agreement"), CNAC Group agreed to provide secretarial, personnel, accounting and general office administrative services (the "Services") to the Group for a period of two year from 1st January 2000 to 31st December 2001 and 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 (the "CNAC Group Expenses"), in respect of CNAC Group's office at 34th Floor, United Centre, No. 95 Queensway, Central, Hong Kong (the "Old Office"), provided that the total fee payable by the Company to CNAC Group under the Management Services Agreement shall not exceed HK\$18,000,000.

The Company and CNAC Group moved out from the Old Office in March 2001 and relocated to the new office at 5th Floor, CNAC House, No. 12 Tung Fai Road, Hong Kong International Airport, Lantau, Hong Kong (the "New Office").





### MANAGEMENT CONTRACTS (CONT'D)

On 9th April 2001, the Company and CNAC Group entered into a supplemental agreement (the "Supplemental Agreement"). Pursuant to the Supplemental Agreement, with effect from 1st March 2001, the monthly fee in connection with the utilities expenses including electricity, water and other incidental expenses would be based on one-fifth of the aggregate expenses incurred by CNAC Group in respect of the New Office on a month by month basis. The Management Services Agreement and the Supplemental Agreement were terminated on 30th June 2001.

On 3rd August 2001, the Company and CNAC Group entered into a new management services agreement pursuant to which CNAC Group agreed to provide the Services to the Group for a period of two years from 1st July 2001 to 30th June 2003 and CNAC Group would be paid by the Company in respect of the Services a monthly fee of HK\$500,000 in respect of the CNAC Group Expenses of the New Office.

### MAJOR CUSTOMERS AND SUPPLIERS

As set out in the section headed "Principal Activities" above, the Group's business are mainly property holding.

The percentages of property rental income for the year attributable to the Group's five largest customers and the Group's largest customer are 56.5% and 15.3% respectively. The Group has only one principal supplier of services in respect of its property rental activity, which accounts for 73.7% of the total expenses incurred in respect of its property rental activity.

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 27.2% of the Group's total rental income.

### CORPORATE GOVERNANCE

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not at any time during the year ended 31st December 2001, in compliance with the Code of Best Practice as set out in the Listing Rules, except that the Non-Executive Directors were not appointed for specific terms but appointed to their offices for such terms and subject to retirement by rotation in accordance with Article 98 of the Company's Articles of Association.

In compliance of the Code of Best Practice, the Company has established an audit committee and has adopted the terms of reference governing the authority and duties of the audit committee. The audit committee has held a meeting to review and consider the Group's annual results for the year.

### SUBSEQUENT EVENT

Details of the subsequent event are set out in note 21 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, 27th March 2002