

Report of the Directors

The directors have pleasure in submitting their annual report together with the audited statement of accounts for the year ended 30th June, 2001.

GROUP'S ACTIVITIES AND OPERATIONS

The principal activities of the company and the group are property development and investment. The principal activities and other particulars of the subsidiaries are set out in note 10 on the accounts.

The geographical analysis of the group's turnover and operating profit is set out in note 2 on the accounts.

JOINTLY CONTROLLED ENTITIES

Particulars of jointly controlled entities at 30th June, 2001 are set out in note 11 on the accounts.

ACCOUNTS

The profit of the company and of the group for the year ended 30th June, 2001 and the state of affairs of the company and of the group at that date are set out in the accounts on pages 14 to 34.

A first interim dividend of HK\$0.10 per share and a special dividend of HK\$0.80 per share were paid on 11th April, 2001. A second interim dividend of HK\$0.40 per share was paid on 5th September, 2001. The directors now recommend that a final dividend of HK\$0.10 per share and a special dividend of HK\$1.80 per share be paid in respect of the year ended 30th June, 2001 and that HK\$10,000,000 be transferred to general reserve.

FIXED ASSETS

Movements in fixed assets during the year are set out in note 9 on the accounts.

DIRECTORS

The directors during the year are given on page 2 and further information regarding directors is given on page 12.

In accordance with articles 120A and 122 of the company's articles of association, Dr. Henry Ngan, Messrs. Liu Lit-mo, Fritz Helmreich and James Y.C. So retire from the board and, being eligible, offer themselves for re-election.

DIRECTORS' INTERESTS IN SHARES

At 30th June, 2001, the directors and their associates had the following interests in the issued share capital of the company as recorded in the register of directors' share interests:

	Ordinary shares of HK\$2 each		
	Personal interests	Family interests	Other interests
Ngan Shing-kwan	808,637 (Note 1)	—	33,468 (Note 2)
Ngan Kit-ling	4,578,799	—	33,468 (Note 2)
Ngan Kit-keung	6,671,468	1,250	33,468 (Note 2)
Dr Henry Ngan	6,903,579	250	33,468 (Note 2)
Liu Lit-mo	62,250	—	—
Fritz Helmreich	6,000	—	—
James Y.C. So	600	—	—

Note 1: Mr. Ngan Shing-kwan passed away on 14th April, 2001 and 808,637 shares in the company are included in his estate.

Note 2: The 33,468 shares in the company are included in the estate of the late Madam Wong Yick-mui, wife of the late Mr. Ngan Shing-kwan.

Report of the Directors (Continued)

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

During the year under review, the company did not grant to any director or chief executive or to the spouse or children under 18 years of age of any such director or chief executive any right to subscribe for shares of the company.

At no time during the year was the company or any of its subsidiaries 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 INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As far as the directors are aware, no shareholder of the company who is not a director of the company is, directly or indirectly interested in 10 per cent, or more of the issued share capital of the company.

DIRECTORS' INTEREST IN CONTRACTS

A sale and purchase agreement was signed on 7th February, 2001 between a wholly-owned subsidiary of the company and Madam Ngan Kit-ling, a substantial shareholder and a director of the company. Pursuant to the agreement, the subsidiary purchased the remaining portion of Kowloon Inland Lot No. 1300 (No. 3 Jordan Road, Kowloon) for a purchase price of HK\$68,000,000 for redevelopment.

Madam Ngan Kit-ling is the sole proprietor of Ngan & Co., one of the company's solicitors, and as such has an interest in legal fees and expenses paid by the company to that firm.

Apart from the foregoing, no contract of significance, to which the company or any of its subsidiaries was a party and in which a director of the company had a material interest, subsisted at the end of the year or at any time during the year.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming ordinary yearly meeting has an unexpired service contract with the company which is not determinable by the company within one year without payment of compensation, other than normal statutory obligations.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID DIRECTORS/EMPLOYEES

(a) Directors

(i) Aggregate emoluments

Details of emoluments of directors of the company are set out in note 5 on the accounts.

(ii) Bandings

The emoluments in respect of the year ended 30th June, 2001 of all the directors of the company in office during the year were in the following ranges:-

<u>Bands (in HK\$)</u>	<u>Number</u>
(1) Nil – \$1,000,000	4
(2) \$1,000,001 – \$1,500,000	1
(3) \$2,500,001 – \$3,000,000	1
(4) \$9,000,001 – \$9,500,000	1
	<u>7</u>

(b) Employees

Set out below are analyses of the emoluments for the year ended 30th June, 2001 of one employee (2000: Nil) of the group who, not being a director of the company, is among the top five highest paid individuals (including directors of the company and other employees of the group) employed by the group.

(i) Aggregate emoluments	HK\$000's
Basic salary, housing allowance and other benefits	<u>667</u>
(ii) Bandings	
<u>Bands (in HK\$)</u>	<u>Number</u>
(1) Nil – \$1,000,000	<u>1</u>

Report of the Directors (Continued)

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

The company periodically repurchases its ordinary shares when they are significantly undervalued in order to enhance shareholder value. During the year, the company repurchased a total of 365,200 ordinary shares of the company on The Stock Exchange of Hong Kong Limited, details of which are shown in note 17 on the accounts. All of these ordinary shares had been cancelled by the company upon repurchase.

Save as aforesaid, the company and its subsidiaries had not purchased, sold or redeemed any of the company's listed securities during the year.

SHARE CAPITAL

Particulars of the movements in the share capital of the company during the year are set out in note 17 on the accounts.

EMPLOYEES' RETIREMENT SCHEMES

During the year, the company operated three separate non-contributory defined benefit retirement schemes, namely, "China Motor Bus General Monthly Rated Staff Retirement Scheme", "China Motor Bus Retirement Scheme" and "China Motor Bus Senior Executive Retirement Scheme" for its monthly rated staff, daily rated staff and senior executives respectively. All three schemes are formally established under trust and registered with the Registrar of Occupational Retirement Schemes. The assets of the schemes are held by an independent trustee, HSBC International Trustee Limited. The members' benefits are determined based on their final remuneration and length of service. The company's contributions to the schemes are made in accordance with the recommendations of independent actuaries who carry out actuarial valuations of the schemes at regular intervals, currently annually, and charged to the profit and loss account. The company's contributions to the schemes during the year were made in accordance with the recommendations of the independent actuaries. The total retirement scheme costs for the year for the three schemes amounted to HK\$Nil.

Effective 5th October, 2000, China Motor Bus Retirement Scheme was wound up and its assets and liabilities were transferred to China Motor Bus General Monthly Rated Staff Retirement Scheme. The affected staff continue to accrue the same rate of benefits under the China Motor Bus General Monthly Rated Staff Retirement Scheme.

The actuarial valuation of the two schemes as at 30th June, 2001 showed that there were sufficient assets in each of the two schemes to cover the on-going liabilities of the schemes. The actuary of these schemes is Watson Wyatt Hong Kong Limited. In the actuarial valuations, the aggregate cost valuation method was used. The major assumptions used in these valuations were: Investment Return and Salary Escalation at 8% per annum; Normal Retirement Age 65; Age related withdrawal rates. Other relevant information extracted from the valuations pertaining to these schemes is set out below:-

- (a) China Motor Bus General Monthly Rated Staff Retirement Scheme
 - (i) The market value of the scheme assets as at 30th June, 2001 was HK\$2,449,000.
 - (ii) The on-going funding level of the scheme was 164%.
 - (iii) The on-going basis funding surplus in the scheme was HK\$959,000.

- (b) China Motor Bus Senior Executive Retirement Scheme
 - (i) The market value of the scheme assets as at 30th June, 2001 was HK\$10,273,000.
 - (ii) The on-going funding level of the scheme was 120%.
 - (iii) The on-going basis funding surplus in the scheme was HK\$1,695,000.

Report of the Directors (Continued)

COMMENTARY ON ANNUAL RESULTS

Revenue and Profit

Turnover of the Group for the year under review increased to HK\$68 million from HK\$52 million in the previous year. The main cause of this increase was the increase in investment return from the investment properties held by the Group. The profit after taxation attributable to shareholders for the year under review increased to HK\$260 million from HK\$231 million in the previous year.

Liquidity and Financial Resources

For the year under review, net cash inflow from operating activities was HK\$40 million (2000: inflow of HK\$17 million). Total dividends paid to shareholders during the year amounted to HK\$194 million (2000: HK\$130 million). Payment for capital investment amounted to HK\$231 million (2000: HK\$391 million). The consolidated cash flow statement for the Group for the year ended 30th June, 2001 is set out on pages 18 and 19 of this annual report.

At 30th June, 2001, the Group had no bank borrowing and had cash and cash equivalents of HK\$2,229 million which were held in the form of short term deposits or cash at banks and in hand.

Capital Expenditure and Commitments

Capital expenditure incurred during the year amounting to HK\$231 million was for the purchase of investment properties and properties held for redevelopment.

There are no capital commitments at 30th June, 2001.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's turnover and purchases attributable to the major customers and suppliers during the financial year is as follows:

	<i>Percentage of the Group's total</i>	
	<i>Turnover</i>	<i>Purchases</i>
The largest customer	42%	
Five largest customers in aggregate	89%	
The largest supplier		25%
Five largest suppliers in aggregate		82%

At no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

Report of the Directors (Continued)

DISCLOSURE PURSUANT TO PRACTICE NOTE 19 OF THE LISTING RULES

At 30th June, 2001, the Group had given the following financial assistance to its affiliated companies (as defined by Practice Note 19 of the Listing Rules):

Company	Note	Amount HK\$000's	Type	Tenure
Island Land Development Ltd		612,850	Interest free, unsecured loan	No fixed terms of repayment
Hareton Ltd		208,657	Interest free, unsecured loan	No fixed terms of repayment
Uttoxeter Ltd		<u>336,591</u>	Interest free, unsecured loan	No fixed terms of repayment
	11	<u>1,158,098</u>		

Proforma combined balance sheet of the affiliated companies at 30th June, 2001 is as follows:

	HK\$000's
Fixed assets	946,000
Deferred expenditure	<u>4,012</u>
	<u>950,012</u>
Current assets	2,081,078
Current liabilities	<u>(73,220)</u>
	<u>2,007,858</u>
	<u>2,957,870</u>

Attributable interest to the Group at 30th June, 2001 amounted to HK\$1,159,557,000 (2000: HK\$1,211,364,000).

SUMMARY OF FINANCIAL DATA

A summary of the Group's financial data for the last five years is shown on page 35.

PROPERTIES

Particulars of the properties and property interests of the Group are shown on page 36.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied throughout the year with the Code of Best Practice as set out by the Stock Exchange of Hong Kong Limited in Appendix 14 to the Listing Rules.

Report of the Directors (Continued)

CONNECTED TRANSACTION

Purchase of property from a connected person

A sale and purchase agreement was signed on 7th February, 2001 between a wholly-owned subsidiary of the company, Prosperous Orient Limited ("POL") and Madam Ngan Kit-ling, a substantial shareholder and a director of the company. Pursuant to the agreement, the remaining portion of Kowloon Inland Lot No. 1300 (No. 3 Jordan Road, Kowloon) was purchased by POL for a consideration of HK\$68,000,000.

As Madam Ngan Kit-ling is a substantial shareholder and a director of the company, the sale and purchase agreement constituted a connected transaction for the company under the Listing Rules of the Stock Exchange of Hong Kong Limited. However, as the purchase price represented less than 3% of the book value of the consolidated net tangible assets of the company as disclosed in the audited accounts for the year ended 30th June, 2000, no independent shareholders' approval was required.

The purchase price was agreed after arm's length negotiations and with reference to an independent valuation of the open market value of the property as at 2nd February, 2001 of HK\$68,500,000 by C.N. Brooke, B.B.S., J.P., FRICS, FHKIS, RPS of Insignia Brooke (Hong Kong) Limited. The directors, including the independent non-executive directors, consider that the terms of the sale and purchase agreement are normal commercial terms and are fair and reasonable.

The group is engaged in property investment and development in Hong Kong and overseas. The directors of the company consider that the property, given its central location in the Jordan area, Kowloon, is a high quality asset. It is the intention of the group to demolish the existing building on the property and redevelop the property into a 26 storey building comprising serviced apartments and retail accommodation with a total gross floor area of approximately 2,776 sq.m. The directors consider that the transaction is in the interest of the shareholders of the company and, upon completion of the redevelopment, the property is expected to generate steady rental income for the group.

AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Ordinary Yearly Meeting.

By order of the board

NGAN Kit-ling
Chairman

Hong Kong, 19th October, 2001