
Directors' Report

The directors present their annual report and the audited financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) for the year ended 31 December 2000.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the principal activities of its subsidiaries and associates are set out in note 41 to the financial statements.

RESULTS

Details of the results of the Group for the year ended 31 December 2000 are set out in the consolidated income statement on page 24 and the accompanying notes to the financial statements.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out in Appendix I on pages 70 and 71.

FIXED ASSETS

Details of movements in fixed assets during the year are set out in note 12 to the financial statements.

Details of investment properties of the Group at 31 December 2000 are set out in Appendix II on pages 72 to 79.

PROPERTIES UNDER DEVELOPMENT

Details of movements in properties under development during the year are set out in note 13 to the financial statements.

Details of properties under development of the Group at 31 December 2000 are set out in Appendix III on page 80.

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SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 28 to the financial statements.

SHARE OPTION SCHEME

Details of the Group's share option scheme are set out in note 28 to the financial statements.

PURCHASE, SALE AND REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's issued shares during the year.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in note 29 to the financial statements.

The Company had no distributable reserves as at 31 December 2000.

MAJOR CUSTOMERS AND SUPPLIERS

For the year, the aggregate turnover attributable to the five largest customers of the Group contributed less than 30% of the Group's consolidated turnover, and the aggregate purchases attributable to the five largest suppliers contributed less than 30% of the Group's total purchases.

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DIRECTORS

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

	Appointed on	Resigned on
Executive		
Lu Xiaochun (<i>Chairman</i>)	18 April 2000	
Wang Yanguang		
Jin Xuesheng		
Zhou Qingquan		
Liang Wenhao		18 April 2000
Chen Shukang		18 April 2000
Gong Hanbing		18 April 2000
Non-executive		
Lee Hung Sang (<i>Independent Director</i>)		
Chan Ching Har, Eliza (<i>Independent Director</i>)		
Chow Chan Lum, Charles (<i>Independent Director</i>)	18 April 2000	
Shen Dabin		
Rui Xiaowu	18 April 2000	
Li Jinsheng	18 April 2000	
Xu Shilong	18 April 2000	
Li Baoan		18 April 2000
Wang Guo Lin		18 April 2000

Non-executive Directors are appointed for a period up to his retirement by rotation at the annual general meeting of the Company in accordance with the Company's Articles of Association.

Messrs. Lee Hung Sang, Shen Dabin, Li Jinsheng and Xu Shilong retire by rotation in accordance with Article 103(A) of the Company's Articles of Association and, being eligible, offer themselves for re-election.

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DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or its subsidiaries 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.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND OPTIONS

As at 31 December 2000, none of the Directors, Chief Executives or their associates have any beneficial or non-beneficial interests in the shares capital and options of the Company or its subsidiaries or any of its associated corporations which is required to be recorded in the Register of Directors' Interests pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has any service contract with the Company or any of its subsidiaries not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2000, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the Securities (Disclosure of Interests) Ordinance discloses the following companies as having interests in 10% or more of the issued share capital of the Company:

Name	Number of ordinary shares
China Aerospace Science and Technology Corporation	896,818,664 (<i>note 1</i>)
Jetcote Investments Limited	896,818,664
Sin King Enterprises Company Limited	393,272,908 (<i>note 2</i>)
Burhill Company Limited	393,681,580 (<i>note 2</i>)

Notes:

1. These 896,818,664 shares are duplicated in the interests held by Jetcote Investments Limited, a wholly-owned subsidiary of China Aerospace Science and Technology Corporation.
2. These 393,272,908 shares held by Sin King Enterprises Company Limited and 393,681,580 shares held by Burhill Company Limited are duplicated in the interests held by Jetcote Investments Limited. Both companies are wholly-owned subsidiaries of Jetcote Investments Limited.

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DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

At no time during the year was the Company or its subsidiaries a party to any arrangements to enable the directors or their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31 December 2000 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") except that the audit committee was not established until 18 April 2000.

AUDIT COMMITTEE

The Company's audit committee currently comprises one non-executive director and two independent non-executive directors, namely Mr. Xu Shilong, Ms. Chan Ching Har, Eliza and Mr. Chow Chan Lum, Charles. The terms of reference of the audit committee have been established with reference to "A Guide for the Formation of Audit Committee" issued by the Hong Kong Society of Accountants. The audit committee had reviewed and approved the audited financial statements of the Group for the year ended 31 December 2000.

CONNECTED TRANSACTIONS

During the year, the Group had the following connected transactions (as defined under the Listing Rules).

Seller/payer	Customer/Payee	HK\$'000
Rental and management fees received from non wholly owned subsidiaries of the Group (<i>note a</i>)		
CASTEL Group	The Company and various wholly owned subsidiaries	212
Subcontracting charges received from a substantial shareholder of a non wholly owned subsidiary (<i>note b</i>)		
Xcom Multimedia Communications	CXSAT (a 51% owned subsidiary of the Group)	5,624

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CONNECTED TRANSACTIONS (continued)

Seller/payer	Customer/Payee	HK\$'000
Sales to a substantial shareholder of a non wholly owned subsidiary (note c)		
CASIL Research and Development Company Limited	Xcom Multimedia Communications	4,173
CASTEL Group	Xcom Multimedia Communications	220
Purchases from a substantial shareholder of a non wholly owned subsidiary (note d)		
Xcom Multimedia Communications	CASIL Research and Development Company Limited	1,659

- (a) The Group let certain properties to CASTEL Group. The rental income was comparable to rental charge on similar properties occupying by other tenants.
- (b) The subcontracting income was fixed at a cost plus profit basis.
- (c) These were sales of decoders by CASIL Research and Development Company Limited and CASTEL Group to Xcom Multimedia Communications (the shareholder which owned the remaining 49% equity of CXSAT) during the year. The selling prices were fixed at a cost plus profit basis.
- (d) These were purchase of decoders by a wholly owned subsidiary of the Group from Xcom Multimedia Communications during the year. The price and quality of such items were more favourable than those which might be obtained from third parties.

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CONNECTED TRANSACTIONS *(continued)*

Independent non-executive directors of the Company have reviewed the above connected transactions and confirmed that the above connected transactions have been entered into by the Group in the ordinary and usual course of business on normal commercial terms and are fair and reasonable as far as the Shareholders are concerned.

LOAN AGREEMENTS WITH COVENANT RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDER

As at 31 December 2000, the Group had outstanding loans in the aggregate amount of US\$37,000,000 (approximately HK\$288,600,000) from certain financial institutions. These loan agreements contain a covenant that the controlling shareholder of the Company, China Aerospace Science & Technology Corporation, will maintain a minimum percentage of shareholding (in most of the cases, a minimum of 40%) of the Company, the breach of which would constitute an event of default on the related loan facilities.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Lu Xiaochun

Chairman

Hong Kong, 23 April 2001