

The directors present their annual report and the audited financial statements of the Company and its subsidiaries (together hereinafter referred to as the "Group") for the year ended 31 December 2001.

#### **PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding and the activities of its principal subsidiaries and associates are set out in notes 42 and 43 to the financial statements.

#### **RESULTS AND APPROPRIATION**

The results of the Group for the year ended 31 December 2001 are set out in the consolidated income statement on page 23.

The Board resolved not to declare any final dividend in respect of the financial year ended 31 December 2001 (2000: nil).

#### **PROPERTY, PLANT AND EQUIPMENT**

Details of movements in property, plant and equipment during the year are set out in note 13 to the financial statements.

#### **INVESTMENT PROPERTIES**

Details of movements in investment properties during the year are set out in note 14 to the financial statements.

### **SHARE CAPITAL**

Details of movements in the share capital of the Company during the year are set out in note 29 to the financial statements.

### **SHARE OPTION SCHEME**

Details of the Group's share option scheme are set out in note 29 to the financial statements.

No option under the scheme was granted or exercised during the year nor outstanding at 31 December 2001.

### **PURCHASE, SALE AND REDEMPTION OF SHARES**

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

### **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.

## DIRECTORS

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

### Executive

Lu Xiaochun (*Chairman*)

Zhou Qingquan

Zhang Tao (appointed on 23 May 2001)

Wang Yanguang (resigned on 23 May 2001)

Jin Xuesheng (resigned on 23 May 2001)

### Non-executive

Lee Hung Sang (*Independent Director*)

Chan Ching Har, Eliza (*Independent Director*)

Chow Chan Lum, Charles (*Independent Director*)

Shen Dabin

Rui Xiaowu

Li Jinsheng

Xu Shilong

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

Mr. Zhou Qingquan, Mr. Rui Xiaowu and Ms. Chan Ching Har, Eliza retire by rotation in accordance with Article 103(A) of the Company's Articles of Association and, being eligible, offer themselves for re-election.

Mr. Zhang Tao retires in accordance with Article 94 of the Company's Articles of Association and, being eligible offers himself for re-election.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 31 December 2001, none of the Directors, Chief Executive or their associates have any beneficial or non-beneficial interests in the share capital 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.

### 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, either directly or indirectly, subsisted at the end of the year or at any time during the year.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Other than the share option scheme disclosed above, 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.

### CONNECTED TRANSACTIONS

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

Seller/payer	Customer/payee	<i>HK\$'000</i>
Rental and office expenses received from non wholly-owned subsidiaries of the Group ( <i>note a</i> ):		
CASIL Telecommunications Holdings Limited and its subsidiaries ("CASTEL Group")	The Company and its certain wholly-owned subsidiaries	130
Subcontracting income 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)	5,664

Sales to a substantial shareholder of a non wholly-owned subsidiary (*note c*):

CASIL Research and Development Company Limited	Xcom Multimedia Communications	3,935
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Purchases from a substantial shareholder of a non wholly-owned subsidiary (*note d*):

Xcom Multimedia Communications	CASIL Research and Development Company Limited	343
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Subcontracting charges paid to a non wholly-owned subsidiary (*note b*):

Hung Nien Electronics Limited	CASIL Research and Development Company Limited	25
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Residential property sold to a non-executive director of the Company (*note e*):

Mr. Shen Dabin and his associate	CASIL Realty Limited	1,040
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Notes:

- (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 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 not more favourable than those which might be obtained from third parties.
- (e) The purchase consideration was agreed after arm's length negotiation on normal commercial terms with references to comparable properties.

Independent non-executive directors of the Company have reviewed the 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.

#### SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, 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 10% or more of the issued share capital of the Company:

Name of shareholder	Number of ordinary shares
China Aerospace Science & 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 & 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.

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

As at 31 December 2001, the Group had an outstanding loan amounting to US\$8,000,000 (approximately HK\$62,400,000) from a financial institution. The loan agreement contains a covenant that the controlling shareholder of the Company, China Aerospace Science & Technology Corporation, will maintain a minimum percentage shareholding of 40% of the Company, the breach of which would constitute an event of default on the related loan facility.

#### **AUDIT COMMITTEE**

The Audit Committee had reviewed, discussed and approved the annual financial report of the Company for the year ended 31 December 2001.

#### **CORPORATE GOVERNANCE**

The Company had complied throughout the year ended 31 December 2001 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, with which it is required to report compliance, except that none of the non-executive directors of the Company has been appointed for a specific term but are subject to retirement by rotation.

#### **AUDITORS**

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

By Order of the Board

**Lu Xiaochun**

*Chairman*

Hong Kong, 22 April 2002