

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 2002.

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 38 and 39 to the financial statements.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December 2002 are set out in the consolidated income statement on page 18.

The Board resolved not to declare any final dividend in respect of the financial year ended 31 December 2002 (2001: nil).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment during the year are set out in note 12 to the financial statements.

INVESTMENT PROPERTIES

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

SHARE CAPITAL

Details of the share capital of the Company 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.

No option under the scheme was granted or exercised during the year nor outstanding at 31 December 2002.

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.

DIRECTORS' REPORT

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

Rui Xiaowu (<i>Chairman</i>)	(appointed as Executive on 23 September 2002 and served as Non-executive previously)
Zhou Qingquan	
Zhao Yuanchang	(appointed on 23 September 2002)
Wu Hongju	(appointed on 23 September 2002)
Zhang Tao	
Lu Xiaochun	(resigned on 23 September 2002)

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>)	
Li Jinsheng	
Xu Shilong	
Chen Dingyi	(appointed on 23 September 2002)
Shen Dabin	(resigned on 23 September 2002)

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. Xu Shilong, Mr. Lee Hung Sang and Mr. Chow Chan Lum, Charles 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. Zhao Yuanchang, Mr. Wu Hongju and Mr. Chen Dingyi retire in accordance with Article 94 of the Company's Articles of Association and, being eligible, offer themselves for re-election.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 31 December 2002, none of the Directors, Chief Executive or their associates have any beneficial or non-beneficial interests in the share capital, warrants 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.

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	HK\$'000
Rental and office expenses received from non wholly-owned subsidiaries of the Company (note a):		
CASIL Telecommunications Holdings Limited and its subsidiaries ("CASTEL Group")	The Company and its certain wholly-owned subsidiaries	26

DIRECTORS' REPORT

CONNECTED TRANSACTIONS (continued)

Seller/payer	Customer/payee	HK\$'000
Subcontracting income received from a substantial shareholder of a non wholly-owned subsidiary (note b):		
Xcom Multimedia Communications	CXSAT (a 51% owned subsidiary of the Group)	8,338
Sales to a substantial shareholder of a non wholly-owned subsidiary (note c):		
CASIL Research and Development Company Limited	Xcom Multimedia Communications	65
Purchases from a substantial shareholder of a non wholly-owned subsidiary (note d):		
Xcom Multimedia Communications	CASIL Research and Development Company Limited	49

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 Company 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.

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 its ordinary and usual course of business and in accordance with its pricing policy.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2002, 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 capital of the Company:

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

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.

CLOSURE OF REGISTER

The Register of Members of the Company will be closed from 23 May 2003 to 28 May 2003 (both days inclusive). Shareholders must lodge any transfers of shares (with the relevant share certificates) with the Company's registrar, Standard Registrars Limited of Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration by no later than 4:00 p.m. on 22 May 2003.

PRACTICE NOTE 19 OF THE LISTING RULES

As at 31 December 2002, the Group had an outstanding loan amounting to US\$5,500,000 (approximately HK\$42,900,000) 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.

A wholly-owned subsidiary of the Company had made an advance to an independent third party (the "Company A") in the past, in which the outstanding balance of the loan, of HK\$248,258,089.65, represented approximately 30% of the Group's audited net assets as at 31 December 2002. The loan was secured by a piece of land and guaranteed personally by the substantial shareholder and chairman of Company A.

DIRECTORS' REPORT

AUDIT COMMITTEE

The Audit Committee had reviewed, discussed and approved the annual financial report of the Company for the year ended 31 December 2002.

CORPORATE GOVERNANCE

The Company had complied throughout the year with those paragraphs of 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

Rui Xiaowu

Chairman

Hong Kong, 16 April 2003