

# DIRECTORS' REPORT

The directors present the 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 2003.

## 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, respectively.

## RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December 2003 are set out in the consolidated income statement on page 16.

No dividend was paid during the year (2002: nil).

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group and the Company during the year are set out in note 11 to the financial statements.

## INVESTMENT PROPERTIES

Details of movements in investment properties of the Group during the year are set out in note 12 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 2003.

## 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.

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## 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 (*Chairman*)

Zhou Qingquan

Zhao Yuanchang

Wu Hongju

Guo Xianpeng

(appointed on 15 January 2004)

Zhang Tao

(resigned on 15 January 2004)

### Non-executive

Lee Hung Sang (*Independent Director*)

Chan Ching Har, Eliza (*Independent Director*)

Chow Chan Lum, Charles (*Independent Director*)

Li Jinsheng

Xu Shilong

Chen Dingyi

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.

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

Guo Xianpeng retires in accordance with Article 94 of the Company's Articles of Association and, being eligible offer himself for re-election.



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

As at 31 December 2003, none of the directors, chief executives or their associates have any beneficial, non-beneficial interests or short position 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 Part XV of the Securities & Futures Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

## 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

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 in the Listing Rules):

<b>Nature of transaction</b>	<b>Amount</b> <i>HK\$'000</i>
Rental and office expenses received from non wholly-owned subsidiaries of the Company ( <i>note</i> ):	
CASIL Telecommunications Holdings Limited and its subsidiaries ("CASTEL Group")	18

*Note:* The Group let certain properties and office equipment to CASTEL Group. The rental income was comparable to rental charge on similar properties occupying by other tenants.



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## CONNECTED TRANSACTIONS *(Continued)*

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

At 31 December 2003, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that the following shareholders had notified the Company of relevant interests of 5% or more in the issued share capital of the Company:

Name of shareholder	Capacity	Number of ordinary shares held for long positions	Percentage of issued share capital of the Company
China Aerospace Science & Technology Corporation	Held by a controlled corporation	896,818,664 <i>(note a)</i>	41.86%
Jetcote Investments Limited	Beneficial owner	109,864,176	5.13%
	Held by a controlled corporation	<u>786,954,488 <i>(note b)</i></u>	<u>36.73%</u>
		896,818,664	41.86%
Sin King Enterprises Company Limited	Beneficial owner	393,272,908 <i>(note b)</i>	18.36%
Burhill Company Limited	Beneficial owner	393,681,580 <i>(note b)</i>	18.38%

### Notes:

- (a) 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.
- (b) 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.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2003.

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## PRACTICE NOTE 19 OF THE LISTING RULES

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\$234,229,000, represented approximately 26% of the Group's audited net assets as at 31 December 2003. The loan was secured by a piece of land and guaranteed personally by the substantial shareholder and chairman of Company A. A court hearing is scheduled in June 2004.

## 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.

During 2003, the independent non-executive directors held certain meetings with the management of the Company regularly and participated a meeting of working group to review matters relating to financial statements, operations, general compliance and substantial issues of the Group.

The Audit Committee of the Company currently has a membership comprising two independent non-executive directors, Ms. Chan Ching Har, Eliza and Mr. Chow Chan Lum, Charles, and a non-executive director, Mr. Xu Shilong. Mr. Chow Chan Lum, Charles had been appointed as the Chairman of Audit Committee of the Company so as to comply with the relevant rules of the amended Listing Rules. The Audit Committee had reviewed, discussed and approved the annual financial report of the Company for the year ended 31 December 2003.

## POST BALANCE SHEET EVENT

Details of a significant post balance sheet event are set out in note 37 to the financial statements.

## 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, 22 April 2004

