

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 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the activities of its principal subsidiaries, associates and jointly controlled entities are set out in notes 39, 40 and 41 to the financial statements.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December 2004 are set out in the consolidated income statement on page 17.

The Board resolved not to declare any final dividend in respect of the financial year ended 31 December 2004 (2003: 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 13 to the financial statements.

INVESTMENT PROPERTIES

Details of movements in investment properties of the Group during the year are set out in note 14 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 2004.

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

Rui Xiaowu (*Chairman*)

Zhao Liqiang (appointed on 16 September 2004)

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*)

Chow Chan Lum, Charles (*Independent Director*)

Luo Zhenbang (*Independent Director*) (appointed on 29 December 2004)

Li Jinsheng

Xu Shilong

Chen Dingyi

Chan Ching Har, Eliza (previously as independent non-executive director,
re-designated as non-executive director on 29 December 2004)

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. Zhao Yuanchang, Mr. Wu Hongju, Mr. Chen Dingyi and Mr. Lee Hung Sang 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 Liqiang and Mr. Luo Zhenbang retire in accordance with Article 94 of the Company's Articles of Association and, being eligible, offers himself for re-election.

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 31 December 2004, 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, 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 and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

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:

Nature of transaction	Amount <i>HK\$'000</i>
Rental and office expenses received from an associate of the Company (<i>note</i>):	
CASIL Telecommunications Holdings Limited and its subsidiaries ("CASTEL Group")	10

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.

On 22 March 2004, the Group borrowed a loan of a principal of RMB50,000,000 from a subsidiary of China Aerospace Science & Technology Corporation ("CASC"). The loan is unsecured, bears interest at 5.09% per annum and repayable on 25 September 2004. The interest incurred during the year amounted to HK\$1,889,000. The Group is now negotiating with that company to extend the repayment terms of the loan.

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.

The auditors of the Company have confirmed that the transactions had been approved by the board of directors and did not exceed the cap stated in the relevant announcement, if any.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, the register of substantial shareholders maintained by the Company pursuant to Part XV of the Securities & Futures Ordinance discloses the following companies as having 5% or more of the issued capital of the Company:

Name	Capacity	Number of ordinary shares held for long positions	Percentage of issued capital
China Aerospace Science & Technology Corporation	Held by a controlled corporation	896,818,664 (<i>Note 1</i>)	41.86%
Jetcote Investments Limited	Beneficial owner	5,490,456	0.26%
	Held by a controlled corporation (<i>Note 2</i>)	891,328,208	41.60%
		896,818,664	41.86%
Burhill Company Limited	Beneficial owner (<i>Note 2</i>)	393,681,580	18.38%
Sin King Enterprises Company Limited	Beneficial owner (<i>Note 2</i>)	393,272,908	18.36%
Jet Square Developments International Limited	Beneficial owner (<i>Note 2</i>)	61,706,700	2.88%
Star River Assets Limited	Beneficial owner (<i>Note 2</i>)	32,165,100	1.50%
Full Power International Limited	Beneficial owner (<i>Note 2</i>)	10,501,920	0.49%

Notes:

1. These 896,818,664 shares are duplicated in the interests held by Jetcote Investments Limited, a wholly owned subsidiary of CASC.
2. All the five companies are wholly-owned subsidiaries of Jetcote Investments Limited. The Shares held by them form part of the total number of Shares held by Jetcote Investments Limited.

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 2004, the independent non-executive directors met 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.

CORPORATE GOVERNANCE *(Continued)*

The Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 of the Listing Rules, as the required standard for the Directors of the Company to trade the securities of the Company. Hence, the Company enquired all the Directors individually whether they had complied with the Appendix 10 while trading the securities of the Company during 2004, and all Directors had complied with the requirements of the Appendix 10 during the period.

The Company had received the letters from all of the Independent Non-executive Directors confirming their independency to the Company is complied with the requirements of Rule 3.13 of the Listing Rules. The Company confirmed the Independent Non-executive Directors are independent.

The Audit Committee of the Company currently has a membership comprising two independent non-executive directors, Mr. Chow Chan Lum, Charles and Mr. Luo Zhenbang and a non-executive director, Mr. Xu Shilong. The Audit Committee had reviewed, discussed and approved the audited financial statements of the Company for the year ended 31 December 2004.

Pursuant to Rule 13.20 of the Listing Rules, a wholly-owned subsidiary of the Company had made an advance to a third party company in the past. The outstanding balance of the advance was HK\$70,269,000 as at 31 December 2004, representing approximately 7% of the Group's audited consolidated net worth as at 31 December 2004. The loan was secured by a piece of land and guaranteed personally by the substantial shareholder and chairman of the third party company. A court hearing in respect of the loan was conducted in June 2004, and the judgement in respect of the action was received at the end of July 2004. The judgement was merely a fact finding and confined to issues of liability only. For the issues of damages, both parties are arranging for directions for the further conduct of this action.

EMOLUMENT POLICY

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 29 to the financial statements.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events are set out in notes 13(c) and 38 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 2005