



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 2005.

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 47, 48 and 49 to the financial statements, respectively.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December 2005 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 2005 (2004:nil).

The Company had no reserve available for distribution as at 31 December 2005 (2004: nil).

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired plant and equipment and motor vehicles, furniture and other equipment of HK\$43,380,000 and HK\$18,431,000 respectively to cope with the expansion of the Group. Details of movements in property, plant and equipment of the Group during the year are set out in note 20 to the financial statements.

SHARE OPTION SCHEME

Details of the Company's share option scheme are set out in note 38 to the financial statements.

No option under the scheme was granted or exercised during the year nor outstanding at 31 December 2005.

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

In the year under review, aggregate turnover attributable to the Group's five largest customers were less than 30% of the Group's consolidated turnover, and the aggregate purchases attributable to the Group's five largest suppliers were 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

Zhao Liqiang
Zhou Qingquan
Zhao Yuanchang
Wu Hongju
Guo Xianpeng

Non-executive

| | |
|--|---|
| Rui Xiaowu (<i>Chairman</i>) | (re-designated as Non-executive director from executive director on 28 June 2005) |
| Lee Hung Sang (<i>Independent Director</i>) | |
| Chow Chan Lum, Charles (<i>Independent Director</i>) | |
| Luo Zhenbang (<i>Independent Director</i>) | |
| Gong Bo | (appointed on 28 June 2005) |
| Chen Dingyi | |
| Chan Ching Har, Eliza | |
| Wang Yujun | (appointed on 28 June 2005) |
| Li Jinsheng | (resigned on 28 June 2005) |
| Xu Shilong | (resigned on 28 June 2005) |

Non-executive directors are appointed for a period of 2 years and, being eligible, offer themselves for re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association.

Mr. Zhou Qingquan, Mr. Guo Xianpeng, Mr. Chow Chan Lum, Charles 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. Gong Bo and Mr. Wang Yujun retire in accordance with Article 94 of the Company's Articles of Association and, being eligible, offer themselves 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 2005, 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, whether 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 of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor the Chief Executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

CONNECTED TRANSACTIONS

On 22 March 2004, the Group borrowed a loan with a principal of RMB50,000,000 from a subsidiary of a major shareholder, China Aerospace Science & Technology Corporation. The loan was unsecured, carried interest from 5.09% to 5.27% per annum and was fully repaid in 2005. The interest incurred during the period amounted to HK\$952,000.

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 primary policy.

SUBSTANTIAL SHAREHOLDERS

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 | As at 31 December 2005 | | As at 9 March 2006 (Note 3) | |
|--|--|-----------------------------|-------------|--------------------------------|-------------|
| | | Number of shares interested | % of issued | Number of shares interested | % of issued |
| China Aerospace Science & Technology Corporation | Interests in controlled corporation | 896,818,664 (Note 1) | 41.86% | 898,021,064 (Note 1) | 41.91% |
| Jetcote Investments Limited | Beneficial owner | 5,490,456 | 0.26% | 5,490,456 | 0.26% |
| | Interests in controlled corporation (Note 2) | 891,328,208 | 41.60% | 892,530,608 | 41.65% |
| | | 896,818,664 | 41.86% | 898,021,064 | 41.91% |
| Burhill Company Limited | Beneficial owner (Note 2 and 3) | 393,681,580 | 18.37% | 394,883,980 | 18.43% |
| Sin King Enterprises Company Limited | Beneficial owner (Note 2) | 393,272,908 | 18.36% | 393,272,908 | 18.36% |
| Jet Square Developments Limited | Beneficial owner (Note 2) | 61,706,700 | 2.88% | 61,706,700 | 2.88% |
| Star River Assets Limited | Beneficial owner (Note 2) | 32,165,100 | 1.50% | 32,165,100 | 1.50% |
| Full Power International Limited | Beneficial owner (Note 2) | 10,501,920 | 0.49% | 10,501,920 | 0.49% |

Notes:

- 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.
- 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 the Jetcote Investments Limited.
- Burhill Company Limited had acquired a total of 1,202,400 shares on 9 March 2006.

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 2005.

DISCLOSURE PURSUANT TO RULE 13.20 OF THE LISTING RULES

CASIL Clearing Limited, a wholly-owned subsidiary of the Company, had made advances to certain independent third party companies in the past. The outstanding balance of the advances as at 31 December 2005 were as follow:

| Borrowers | Interest rate | Securities | Outstanding balance as at 31 December 2005 |
|------------------------------------|------------------|--|---|
| Rich Echo Investment Limited | 12.5% | Corporate and personal guarantees | HK\$87,808,000 |
| Chinluck Properties Limited ** | 15.0% | A piece of land and a personal guarantee | HK\$70,269,000 |
| East Pioneer International Limited | 12.5% | Corporate and personal guarantees | HK\$100,000,000 |

** A court hearing in respect of the loan was conducted in June 2004, and the judgement in respect of the action was received in July 2004. The judgement was merely a fact finding and confined to issues of liability only. For the issues of damages, both parties have arranged for the further hearing in October 2006.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the management on the basis of their merit, qualification and competence.

The emoluments of the Directors are decided by the Remuneration Committee, having regard the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in note 38 to the financial statements.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event are set out in note 46 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, 24 April 2006