

The directors present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2006.

### **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 41, 42 and 43 to the consolidated financial statements, respectively.

### **RESULTS AND APPROPRIATION**

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 23.

The Board resolved not to declare any dividend in respect of the financial year ended 31 December 2006 (2005: nil).

The Company had no reserve available for distribution as at 31 December 2006 (2005: nil).

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

During the year, the Group acquired plant and equipment and motor vehicles, furniture and other equipment of HK\$54,070,000 and HK\$16,908,000 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 17 to the consolidated financial statements.

### **SHARE OPTION SCHEME**

Details of the Company's share option scheme are set out in note 34 to the consolidated financial statements.

No option under the scheme was granted or exercised during the year nor outstanding at 31 December 2006.

### **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, the 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 (*President*)  
Zhou Qingquan  
Zhao Yuanchang  
Wu Hongju  
Guo Xianpeng

### Non-Executive

Ma Xingrui ( <i>Chairman</i> )	(appointed on 25 July 2006)
Gong Bo	
Chan Ching Har, Eliza	
Wang Yujun	
Xu Jianhua	(appointed on 25 July 2006)
Chow Chan Lum, Charles ( <i>Independent</i> )	
Luo Zhenbang ( <i>Independent</i> )	
Wang Junyan	(appointed on 30 March 2007)
Rui Xiaowu	(resigned on 25 July 2006)
Lee Hung Sang ( <i>Independent</i> )	(resigned on 30 March 2007)
Chen Dingyi	(resigned on 30 March 2007)

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.

Messrs. Zhao Liqiang, Zhao Yuanchang, Wu Hongju and Luo Zhenbang retire by rotation in accordance with Article 103(A) of the Company's Articles of Association and, being eligible, offer themselves for re-election.

Messrs. Ma Xingrui, Xu Jianhua and Wang Junyan 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 2006, none of the Directors, Chief Executives or their associates have any beneficial, non-beneficial interests or short positions 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 OF SIGNIFICANCE**

No contracts of significance, to which the Company or any of 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 any of 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**

CASIL Clearing Limited ("CASIL Clearing"), a wholly-owned subsidiary of the Company, entered into an agreement with China Aerospace Science & Technology Corporation ("CASC"), a major shareholder of the Company, pursuant to which CASIL Clearing has agreed to purchase and CASC has agreed to sell approximately 79.25% of the issued share capital of Vanbao Development (Canada) Limited, the related shareholder's loan and 100% of the registered capital of Dongguan Huadun Enterprises Limited at an aggregate consideration of HK\$92,884,000, payable by assigning of certain of the loans receivable of CASIL Clearing. As the aggregate book value of the loans receivable amounted to HK\$188 million assigned by CASIL Clearing to CASC or its nominee exceeded the aggregate consideration, the difference was set-off against the shareholder's loan due from the Group to CASC as at the date of completion of HK\$80,000,000 and the balance of HK\$14,924,000 was paid by CASC to CASIL Clearing in cash.

Independent Non-Executive Directors of the Company have reviewed the above connected transactions and confirmed that the connected transactions have been entered into by the Group in its ordinary and usual course of business.

## SUBSTANTIAL SHAREHOLDERS

As of 31 December 2006, 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:

<b>Name</b>	<b>Capacity</b>	<b>Number of shares interested</b>	<b>Percentage of issued share capital</b>
China Aerospace Science & Technology Corporation	Interests in controlled corporation	911,108,864 (Note 1)	42.53%
Jetcote Investments Limited ("Jetcote")	Beneficial owner Interests in controlled corporation (Note 2)	109,864,176	5.13%
		801,244,688	37.40%
		911,108,864	42.53%
Burhill Company Limited ("Burhill")	Beneficial owner (Note 2)	407,971,780	19.04%
Sin King Enterprises Company Limited ("Sin King")	Beneficial owner (Note 2)	393,272,908	18.36%

Notes:

1. These 911,108,864 shares are duplicated in the interests held by Jetcote and its subsidiaries. Jetcote is a wholly-owned subsidiary of China Aerospace Science & Technology Corporation.
2. Both Burhill and Sin King are wholly-owned subsidiaries of Jetcote. The shares held by them form part of the total number of shares held by Jetcote.

Save 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 2006.

## DISCLOSURE PURSUANT TO RULE 13.20 OF THE LISTING RULES

CASIL Clearing Limited ("CASIL Clearing"), a wholly-owned subsidiary of the Company, had made an advance to Chinluck Properties Limited ("Chinluck"), an independent third party, in the past. The loan was secured by a piece of land and guaranteed personally by the substantial shareholder and chairman of Chinluck. CASIL Clearing was alleged a breach of the loan agreement in failing to advance the full amount of HK\$330,000,000 to Chinluck in 1997. CASIL Clearing resisted the claim and counterclaimed against Chinluck and sued against its guarantor upon default on, including but not limited to, interest and payment of the loan amount advance under the loan agreement and the mortgage. 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 2005. The judgement was merely a fact finding and confined to issues of liability only. For the issues of damages, it was held by the Court in December 2006 that, inter alia, CASIL Clearing is required to pay a nominal damages of HK\$100 to Chinluck for its breach of agreement to advance the remaining portion of the loan and Chinluck is required to pay the outstanding principal and the accrued interest under the loan agreement and the mortgage for its breach of the repayment obligations. The nominal damage of HK\$100 payable by CASIL Clearing to Chinluck is to be set off against the amount of the judgment to be calculated and agreed between the parties. As the calculation of the judgement sum has not been agreed by both parties, further application to the Court for adjudication has been scheduled. As of 31 December 2006, the outstanding balance of the advance was HK\$70,269,000.

## 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 to 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 34 to the consolidated 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.

On behalf of the Board

### **Zhao Liqiang**

*Executive Director & President*

Hong Kong, 30 March 2007