
Chairman's Statement

On behalf of the Board of Directors, I am pleased to announce the audited results of China Aerospace International Holdings Limited (the "Company") and its subsidiaries (together hereinafter referred to as the "Group") for the financial year ended 31 December 2000.

SUMMARY OF RESULTS

As the year 2000 unfolded, the Group strode into an important period to refocus its core businesses. As the year elapsed, the refocused core businesses became more and more solidly shaped. To its encouragement, the Group's debts were further reduced. During the period under review, the Group's turnover was HK\$1,066,019,000, representing a 17% decrease over the previous period, which was mainly caused by its trading business scale-down and color TV sales reduction in Mainland China. Considering its business and assets restructure and for the sake of laying a solid business foundation for its long-term development, the Group made a prudent and resolute decision for a provision of over HK\$800 million (including provisions for bad debts and inventories, and impairment loss on securities investment). The provisions consequently increased the loss attributable to shareholders to HK\$1,017,429,000 (1999: loss of HK\$383,963,000), and the loss per share was HK\$48 cents (1999: loss of HK\$21 cents).

PROVISIONS

The Group has refocused its core businesses to high-tech industries, network-based information technology and satellite application. In October 1997, the Group became one of the major shareholders of APT Satellite Holdings Limited (APT, SEHK: 1045) through a strategic investment in it. Due to market turbulences, the share price of APT has experienced increasing fluctuations in recent years and persists below the acquisition cost. Therefore, necessary provision has been made for it. Considering the intense market competitions for color TV business in Mainland China, the Group has again made a provision for obsolete inventories. In addition, there has been a provision for bad debts. From the long-term viewpoint, the above provisions will significantly improve the assets quality, thus creating favorable conditions for the Group to focus its resources on core business development.

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BUSINESS REVIEW

1. The Group's High-Tech Enterprises Maintaining Favorable Growth

During the period under review, all high-tech enterprises have maintained favorable growth thanks to the Group's effort to inject more funds for technological renovation to upgrade products and develop new ones.

The pre-tax profits from the high-precision PCB production increased significantly over the previous period. The sustained quality improvement has attributed significantly to the product's prestige among its customers. The PCB products were awarded the Certificate of Merit in Quality by Hong Kong Trade & Industry Department in 2000.

An overall upgrade has been fulfilled for the STN product quality of the Group's LCD enterprise, resulting in an improvement in operating performance. In the Group's electronic business mainly targeted at the international market, the profits yielded from the ODM electronic products have taken larger proportion in turnover, and their market competitiveness and profitability have been significantly enhanced as well. The enterprise experienced an improvement in its operation.

Against an extraordinarily intense market competition for color TV business in Mainland China, the manufacture enterprise of the Group has still achieved progress in cost reduction and overseas marketing. A diverse production tactics has also been adopted by the manufacture enterprise to produce DVB-C/DVB-S set-top box, and tax-controller for gas-refueller.

The plastic injection and mould manufacture of the Group have recorded slowdown in growth due to substantial increases in raw-material costs caused by the global oil price hiking. However, the manufacture enterprises still maintained the same pre-tax profit levels as those of the previous period thanks to their equipment renovation and product-quality improvement. In 2000, they were awarded the Certificate of Merit in Productivity by Hong Kong Productivity Council.

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2. The Group's Network-Based Information Technology Business Taking Shape

During the period under review, further progress has been made in the operation of the three major business segments-the data transmission, the data platform and the data broadcast-in the Jiangsu-CASIL Broadcasting/TV & Network Data Company Limited (JS-CASIL Network), a joint venture invested by the Group in Jiangsu Province in Mainland China. More data link services have been provided to subscribers, and a total of 147 2Mb/s data links have been subscribed up to now. In Jiangsu Province, established data link network subscribers currently include the provincial government departments, the Provincial Education Commission, the Provincial Science & Technology Commission, as well as the three provincial branches of the Bank of China, the Industrial & Commercial Bank of China and the Agricultural Bank of China. Besides, the Jiangsu provincial distance learning service has been provided through the data transmission platform. As a result, subscribers have been benefited from its supplementary courses for middle school education and courses for adult education. The basic broadband ring network and the basic network platform for the City of Nanjing have been set up as well. Up to now, the JS-CASIL Network, together with its partner, has been ready to provide ISP and e-commerce for its subscribers. In 2000, the turnover and the profit yielded by the JS-CASIL Network have increased by 3.4 times and 12.4 times respectively, an encouraging onset of rewarding for the Group's investment.

The DVB-C System together with its set-top box developed by the Group has been successfully marketed and put into commercial operation in the Cable TV Station of Changzhou of China. This becomes the first digital TV broadcasting system that is commercially operated in China. Its cable-TV subscribers in the City of Changzhou have been benefited from a series of brand-new digital video broadcasting and value-added services, including digital video programs and real time stock quotations. More value-added services will soon be provided such as NVOD and high-speed internet access.

In order to accelerate the business restructure of its manufacture enterprises to produce pro-high-tech products, the Group has injected more of its high-tech-intensive products into these enterprises for batch production, such as the set-top box for DVB-C System and the tax-controller for gas refueller developed by the Group's R&D subsidiary, as well as the set-top box for DVB-S System jointly developed by the Group and a French company. The Group has also intensified its efforts to increase the production of these products and promote them in oversea markets.

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The Group's subsidiary, CASIL Telecommunications Limited (CASTEL, HKSE: 1185), has successfully developed a 5.8G broadband wireless access system through its technological renovation based on a patent technology from an American company. The system has already accomplished a successful test operation in Mainland China. In addition, the vehicle tracking system developed by CASTEL has been applied by the HKSAR Government Supplies Department for its vehicle control.

3. The Group's Business Restructure Yielding Results

During the period under review, positive results have been yielded by the Group's continuing efforts of scaling down its real estate business, optimizing asset structuring of real estate, straightening out its trade business, streamlining human resources in trading sector, clearing off stock and collecting its trade receivables.

During the period under review, the overall expenditure for the Group's headquarters decreased by 25% compared with the previous period. The Group timely repaid its debts due in 2000. The Group's financial status has been further improved as evidenced by a lower gearing ratio.

OUTLOOK

In view of the international economic and market situation, the slowdown of the U.S. economy will inevitably affect the economic development in Asia, Europe and even the whole world. Such impacts are expectedly exerted on the Group's oversea businesses. Nevertheless, it is hoped that China's access to WTO will partly offset the pressure from the U.S. economic slowdown. China is about to implement its "Tenth Five-Year Plan". To maintain a stable growth of its national economy, the Central Government of China has made it clear to extend full support for the development of high-tech industries, including broadband high-speed IT network and satellite application. Such a favorable macro-economic environment in Mainland China will provide the Group an unprecedented opportunity for its business growth.

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In 2001, the Group will continue to straighten out its businesses, promote its core businesses, accelerate its reform of management mechanism and consolidate its industrial achievements. Through further investment in R&D, the Group expects to develop and manufacture some competitive network terminal equipment and related products more effectively. Although it may take a longer time than planned for its business restructure, the Group will continue to cooperate closely with its major shareholder, China Aerospace Science & Technology Corporation, to establish a business basis for satellite application projects. When the Group's satellite application business is initiated, it is believed that the overall competitiveness and profitability capability of the Group will be enhanced substantially.

China Aerospace Science & Technology Corporation, the Group's major shareholder, has repeatedly stated its support for the Group as its only publicly listed window company in abroad. To respond to such support, the managing board and all the staff of the Group will work conscientiously to accomplish better results for the Group in 2001.

I would like to take this opportunity to express, on behalf of the Board of Directors, my sincere gratitude to our shareholders, bankers, business partners and celebrities from various social communities for their significant support, as well as to all the staff of the Group for their devoted service.

By Order of the Board

Lu Xiaochun

Chairman

Hong Kong, 23rd April 2001