

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 2001.

SUMMARY OF RESULTS

In 2001, the Group's turnover was HK\$1,008,293,000, representing a 5.4% decrease over the previous year, and its gross profit was HK\$218,225,000 (2000: HK\$114,108,000). As required by the new Statements of Standard Accounting Practice ("SSAP(s)"), the Group made a write down of assets at HK\$232,712,000. The Group's loss from operations was HK\$281,514,000, representing a 67.9% decrease over the previous year (2000: HK\$878,553,000). The impairment loss recognised in respect of interests in associates attributed a loss of HK\$470,116,000 to the Group. As for the year ended 31 December 2001, the net loss attributable to shareholders was HK\$736,311,000, representing a 27.6% decrease over the previous year, and the loss per share was HK34 cents.

BUSINESS REVIEW

In 2001, major industrial countries suffered from a lasting global sluggish economy. Their weak import demands lead to drops in export from manufacturers in Mainland China. Consequently, Hong Kong also suffered from an obvious slowdown in its export business and economic growth. Under such harsh external economic environments, the Group focused on developing and marketing network-based IT products, strengthening management, reducing costs and improving efficiency. Satisfactory progress was made accordingly in its various business sectors.

By minimizing the influence of unfavorable factors, the Group's high-tech enterprises achieved satisfactory business results. The Group's high-tech enterprises maintained continuing and stable growth against difficult market environments in 2001. The major ones, for example, plastic moulding products, PCBs, smart battery chargers and LCDs, achieved satisfactory results through minimizing the influence of various unfavorable factors. In particular, the manufacturing of smart battery chargers continued to expand its ODM scale at overseas markets, achieving growth both in turnover and profit. The plastic moulding business also sustained its growth in turnover and profit over the previous year. As expected, the PCB business maintained the same profit level respectively as that of previous year.

CASIL Electronic Products Limited, a subsidiary of the Company, substantially reduced its loss in television business in 2001 comparing with the previous year. At present, it focuses on developing and manufacturing network-based products such as set-top boxes so as to accomplish its business and product restructuring.

The Group continued to allocate more resources to technological upgrading. The second-phase plant construction project in Huizhou Industrial Park in Mainland China was completed and put into operation in December 2001. The project significantly enhanced the competitive edge for the Group's major enterprises, laying a solid basis for future growth and development.

The network-based IT business maintained stable growth while the Group's R&D Centre accomplished its strategic restructuring. The Group relocated its R&D Center to Shenzhen in Mainland China, and its management was integrated with the Group's R&D Company in Hong Kong. The strategic restructuring for the R&D Center was completed by the Group. In 2001, the R&D Center, while further improving its DVB-C system functions, developed a new Subscriber Management System (SMS) which enables commercial broadcasting of 11 encoded programs and provides many other value-added services in Changzhou Cable TV Station in Mainland China. The authorities of Changzhou Cable TV Station highly appreciated these R&D achievements and the National Broadcasting & Television Administration of China also gave encouraging attention to them.

To optimize the management of the JS-CASIL Network, a joint-venture invested by the Group in Nanjing, Mainland China, the Group followed a business development policy of "taking data link business as the basis and internet business as the key in order to develop broadcasting/television-style broadband multimedia business". In 2001, the JS-CASIL Network successfully set up a broadband internet access center for Jiangsu Broadcasting and TV Network, and started commercial operation in the same year, providing internet access service for broadcasting and TV stations in cities and townships in Jiangsu Province.

Despite its drop in turnover, CASIL Telecommunications Holdings Limited ("CASTEL"), the Company's subsidiary, significantly enhanced its gross profit. Its continuing loss was mainly attributed to the impairment on amounts due from its associates, as well as the pressure from the sales slowdown in its traditional telecommunications products and the taking off in its newly-developed business. Nevertheless, the 5.8GHz Broadband Wireless Access System (CB-ACCESS) developed by CASTEL has been approved by the Hong Kong Telecommunications Authority to enter the Hong Kong telecommunications market soon after CASTEL's announcement of commercial access to the 5.8GHz frequency spectrum in May 2001. As expected, the CB-ACCESS was embraced by the market. In addition, CASTEL

achieved further progress in promoting its self-developed intelligent traffic control system in Hong Kong, Beijing and Guangdong Province. These two businesses are taking shape and will grow to meet further market needs.

The Company's property business made some progress. Against a sluggish property market in Hong Kong, the Company's property subsidiary carried out the Group's policy to dispose of properties and fulfilled its annual disposal target, which created favorable conditions for the Group's business restructuring and transformation.

OUTLOOK

Looking into 2002, the U.S. economy is expected to attain recovery and the global market is getting pro-demanding. Since China has officially become the member of the WTO, its market will be further opened and related policies will become more concrete and encouraging for foreign investments. The National Broadcasting & Television Administration of China has already set the development of digital TV technology as the key project for broadcasting and TV technological innovation by putting forward an implementation policy for digital TV technological experiment. Following the announcement of commercial access to the 5.8GHz frequency spectrum by the Hong Kong Telecommunications Authority, China is expected to make the same announcement in 2002. These factors provide favorable business opportunities and promising market for the network-based digital video products, the broadband wireless access system and the intelligent traffic control system that have been the key R&D projects for the Group in recent years.

Digital TV technology is currently the key to innovate broadcasting and TV technology and has the priority to be promoted in Mainland China. From its past business engagement in DVB-C in Mainland China, the Group has accumulated precious market experience and results of related technology development, and will take further active measures to develop such businesses so as to create favorable conditions for its new growth.

In recent years, the Group has increased investments in renovating industrial technology and disposing of doubtful assets with a view to achieve an optimal mix of assets. The Group's input in technological renovation has started to yield profits, and thanks to such technological renovation, some subsidiaries have remarkably improved their business operation. Their development and marketing of new products have also made satisfactory progress.



□ CHAIRMAN'S STATEMENT (CONTINUED) □

With the support of the major shareholder, China Aerospace Science & Technology Corporation, the Group will devote more efforts to its asset restructuring and business transformation so as to further reduce its debts and dispose of its non-core assets. With a solid foundation, the Group will gradually set up its core business dominated by satellite and satellite application.

COMPLIMENTS

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

By Order of the Board

Lu Xiaochun

Chairman

Hong Kong, 22 April 2002