

CHAIRMAN'S STATEMENT

The Board of Directors of China Aerospace International Holdings Limited (the "Company") hereby announces the audited results of the Company and its subsidiaries (together hereinafter referred to as the "Group") for the financial year ended 31 December 2003.

SUMMARY OF RESULTS

In 2003, the Group recorded a turnover of HK\$1,239,633,000 (2002: HK\$1,299,825,000), representing a decrease of 4.6% as compared to the previous year. The gross profit rose 6.8% to HK\$282,434,000 (2002: HK\$264,327,000). The finance costs dropped by 18.7% as compared to last year. The result reported a swing to a profit of HK\$30,196,000, rebounding from losses for five consecutive years.

BUSINESS REVIEW

In 2003, the business environment was full of challenges and chances. We had implemented effective measures to strengthen market development. As a result of persistent efforts to seek improvement, progress had been made in the areas of cost control, lowering of finance costs, consolidation and restructure of research and development business and resources, as well as the establishment of strategic partnership alliances.

Hi-tech Manufacturing Industries. In recent years, by means of technical innovations and equipment renewals, the strengths of our manufacturing industries are elevated that enabling our products to remain competitive and make room for development. The annual turnover of the manufacturing industries in 2003 was HK\$1,072,317,000 and the operating profit was HK\$71,738,000.

Satellite Application Business. In terms of digital TV business, our new-generation model, DCR 3800 set-top box, with significant enhancement in capabilities, was awarded a Network Access License by the State Administration of Radio, Film and TV. The product was launched and received acclamation in Changzhou City, Jiangsu Province. Year 2003 witnessed a steady growth in the number of subscribers of our DVB-C project in Changzhou City. The Company's R&D subsidiary, CASIL Science and Technology Development (Shenzhen) Company Limited, was declared one of the two winners in a tender to supply set-top boxes in cities such as Wenzhou and Zhaoxing, Zhejiang Province where China Cable Broadcasting & Information Network Company is penetrating the DVB market.

Restructuring of R&D Business & Relevant Assets. The Company had undergone a re-organization of structure, management system and related assets of digital TV business. Upon the restructuring, China Aerospace New World Technology Limited becomes the entity which oversees the operations of CASIL Science and Technology Development (Shenzhen) Company Limited, as well as Jiangsu CASIL Broadcasting & Cable TV Network Company Limited and China Cable & CASIL Information Technology Company Limited, both of which are joint ventures of the Company. It would be a system integrator and equipment supplier that vested with the special responsibilities of development,

CHAIRMAN'S STATEMENT

manufacturing, marketing and sale of digital TV and satellite application products. Apart from this, the Group has formed an R&D Center in Shenzhen Hi-tech Industrial Park, which is principally engaged in the research and development of satellite application and digital broadcasting service. Through the above restructuring in business and resources, the target and market positioning of digital TV business becomes clearer. Overall administrative expenses had dropped while a strong competitive edge is maintained.

Forming of Strategic Alliance. The Company entered into a strategic alliance agreement in October 2003 and a shareholders' agreement in February 2004 with New World TMT Limited in a move to jointly develop the digital TV markets in China through a joint venture company, China Aerospace New World Technology Limited.

Disposal of Properties. Disposal of non-core assets is in line with one of the Group's established policies of business restructuring. In 2003, the Group successfully sold out certain non-core assets locating in Hong Kong and China. Meanwhile, the vacancy rate of remaining properties is reduced and the rental income is kept to be stable.

BUSINESS OUTLOOK

Looking forward to 2004, the Board is confident to the development of the Group's various businesses. The Group will continue to strengthen business development and internal management, and to remain profitability. First of all, the Group will enhance technical reform, make good use of our advantages, strengthen product quality and innovation, develop those products with higher value-added value so as to sustain a steady growth of our manufacturing industries and to create our global competitiveness. Furthermore, the Group will actively develop new economic growth points in the business of satellite application, such as set top box, in order to intensify product development and the ability of batch production gradually. Meanwhile, the Group will further cooperate with strategic partners so as to accelerate the promotion of digital TV business.

With the strong support of our major shareholder, China Aerospace Science & Technology Corporation, in 2004, the Group will continue to put more efforts on corporate reform, innovation and management. We will also persist in asset restructuring and business development, nurturing and developing the research & development, manufacturing, sale and service of chain business in relation to satellite application.

By order of the Board

Rui Xiaowu
Chairman

Hong Kong, 22 April 2004

CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED