



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 2005.

BUSINESS REVIEW

According to the audited results of the Group for the year ended 31 December 2005, the Group recorded a turnover of HK\$1,780,938,000, an increase of 26.3% as compared with last year. Profit attributable to shareholders was HK\$286,403,000 and finance expense was HK\$39,289,000, a decrease of 21.6% as compared with last year.

The Group's industrial manufacturing business continued to grow at a rapid pace, especially its liquid crystal display ("LCD") business, where a turnover of HK\$133,398,000 was recorded, an increase of 62.3% as compared with last year. Turnover from printed circuit board, plastic injection and intelligent battery chargers and security system increased 31.5%, 7.5% and 33.6% respectively as compared with last year.

The Group's video and audio business operation mainly included the assembly of traditional Cathode Ray Tube ("CRT") television. However, owing to the undesirable operating environment in recent years and in face of severe competition from plasma television and LCD television, profit margin from such operation had diminished while risks associated with it increased. As such, the Group strategically decided to entirely withdraw from such business during the year with intent to allocate those resources to more reassuring businesses.

In 2005, turnover of industrial manufacturing business was HK\$1,382,602,000, an increase of 6.2% as compared with last year. Despite impacts of one-off accounting treatment of the disposal of audio and video business, profit of industrial products still managed to grow at 9.5% to HK\$108,591,000. Without taking into account of the impact of audio and video business, the turnover of industrial products would have been HK\$1,211,839,000 during the year, representing 23.6% hike as compared with last year, and operating profit would have been HK\$139,843,000, an increase of 47.3% as compared with last year.

To pave the way for our future development, the Group has completed a number of tasks during the year:

On 22 January 2005, the Group and China Academy of Launch Vehicle Technology entered into the Sale and Purchase Agreement to dispose the equity interest in CASIL Telecommunications Holdings Limited ("CASIL"). The transaction was approved at the extraordinary general meeting held on 15 March 2005 and completed on 10 July 2005.

In consistent with the Group's strategy to restructure its debts and to optimize its resource allocation, the Group disposed the entire Conic Investment Building in Hung Hom, Kowloon for a consideration of HK\$330 million during the year. The transaction was completed in June 2005.

In order to improve the prospects for raising funds and to increase the possibility of declaring dividend in the future, the Group proposed reduction of capital, cancellation of share premium and restoration of authorised share capital in July 2005. The proposed reorganisation of share capital was approved by the shareholders at the extraordinary general meeting held on 25 August 2005 and confirmed by the High Court on 1 November 2005.

Following the completion of the Original Debt Restructuring Deed between the Group and Bank of China (Hong Kong) Limited ("BOCHK") on 7 December 2004, the Group and BOCHK entered into a Supplemental Debt Restructuring Deed on 21 December 2005. Pursuant to which, BOCHK agreed to irrevocably waive the debt of HK\$176,024,000. The loan outstanding was then reduced to approximately HK\$466,256,000, of which approximately HK\$259,291,000 had already been repaid to BOCHK in 2005. The remaining debts will be settled by instalments with fixed interest rate according to the new terms. The Supplemental Debt Restructuring Deed entered into between the Group and BOCHK further reduced our finance expenses.

As a result of the business development in 2005 and series of asset optimisation exercises as mentioned above, the gearing ratio of the Group was reduced to 48.5% at the end of 2005 from 69.4% at the end of 2004.

Through strategic deployment and a series of asset optimisation exercises over the past few years, the Group was able to turnaround its high debt, high finance cost and barely reasonable asset structure. Significantly improved in asset structure and quality served to reinforce our existing business while at the same time paved the way for our new business development.

BUSINESS OUTLOOK

The management had, after careful consideration, review and analysis, resolved to focus on three areas of business development: hi-tech manufacturing, science park development and hi-tech industry.

Hi-tech manufacturing segment is our core income source at the moment and is the foundation of future development of the Group. After disposal of its audio and visual business, the Group will concentrate on the development of liquid crystal display, printed circuit boards, plastic injection and intelligent chargers and security system, as well as expansion of high end products such as LCD modules, flexible printed circuit boards and digital electronic products. By means of continued enhancement of technology and equipment, stringent quality control and cost control, gradual expansion of our production scale, the Group is aimed to sustain a steady growth and achieve stronger and better competitive edge and market share.

In recent years, the PRC real estate market and related property investment market had recorded robust growth. Under such circumstances, and by leveraging on the competitive edge of CASC, the Group is aiming at joint development and investment in industry parks and science parks with local government and industrial elites, which will become one of the primary businesses of the Group in future.

Hi-tech industry segment is the leading business segment of CASC, our major shareholder, which has a promising prospect. By adhering to our practical business development strategy, the Group is actively pursuing any opportunity in the course of development of CASC towards technology industrialisation, commercialisation and internationalisation. By taking full advantage of the favourables of Hong Kong and by means of investment, acquisitions and reorganisation, the Group will fully implement hi-tech industry development.

Looking ahead, the Board of Directors is confident about the future development of the Group. The Group will continue to introduce investment projects with good and promising prospect and in line with our development strategy, so as to add value to and to provide satisfactory returns for our shareholders.



COMPLIMENTS

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, people from various social communities, as well as all staff of the Group for their long-time support.

By order of the Board
Rui Xiaowu
Chairman

Hong Kong, 24 April 2006