

On behalf of the Board of Directors of China Aerospace International Holdings Limited (the "Company"), I am pleased to announce the audited results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2006.

### **BUSINESS REVIEW**

The audited turnover of the Group for the year ended 31 December 2006 was HK\$1,528,101,000 and the profit attributable to shareholders was approximately HK\$110,966,000. The earnings per share was HK\$0.052.

In 2006, through acquiring new quality customers, continuing technological enhancement and strengthening internal control, the Group's hi-tech manufacturing business, which comprises liquid crystal displays, printed circuit boards, plastic injection and intelligent battery chargers as the core products, achieved a steady growth. The turnover from which recorded HK\$1,506,388,000, representing an increase of about 24% as compared to that of last year; and the profit was HK\$174,447,000, representing an increase of about 25% as compared to that of last year. In particular, the performance of the businesses of liquid crystal displays and printed circuit boards was relatively strong. During the year, the turnover of both businesses increased 76% and 25% respectively.

In 2006, the Group has focused in asset restructure and enhancement, with such efforts gaining a substantial breakthrough. With the full support from the substantial shareholder, China Aerospace Science & Technology Corporation ("CASC"), the Group entered into a sale and purchase agreement with CASC in March 2006. Pursuant to the agreement, CASC was assigned loans receivable of approximately HK\$188,000,000; the Group, in return, received a 79.25% shareholdings in Vanbao Development (Canada) Limited, the related shareholder's loan and the entire shareholdings of Dongguan Huadun Enterprises Limited as the consideration for the disposal of loans receivable. The transaction was made in accordance with an equal-value swap principle. In order to settle the balance, CASC agreed to set off a sum of HK\$80,000,000 shareholder's loan due from the Group and paid to the Group a sum of approximately HK\$14,924,000 in cash. The details of the transaction are referred to the shareholders' circular dated 10 April 2006. The independent shareholders of the Company approved the transaction at the extraordinary general meeting held on 26 April 2006. The transaction was completed on 30 September 2006.

The assets swap transaction strengthened the financial position and improved the asset quality of the Group. As of 31 December 2006, the appraised values of the two pieces of land assigned from the assets swap transaction contributed a surplus of HK\$18,533,000 to the Group upon revaluation, as a result of the booming property markets.

In 2006, the Group captured opportunities to strengthen the development of new businesses and migrated an important step forward. Hi-tech manufacturing business, science and technology park complex development, and hi-tech industries development are the three major focuses of the Group's business development. With the support from CASC, the Group successfully reached a joint venture agreement with the Shanghai Minhang Investment Construction Company Limited, a wholly-owned subsidiary of the government of Minhang District in Shanghai, to establish the Shanghai Aerospace Technology Investment Company Limited (the "Joint Venture"). The details of the agreement are referred to the shareholders' circular dated 16 November 2006. The principal activities of the Joint Venture are the development, management and operation of the Aerospace Technology Park ("Park"). Locating in the Minhang District, Shanghai, the Park is planned to attract enterprises from aerospace and advanced-technology industries. At present, the Joint Venture has been established and engaged in normal operation. The Park has commenced an initial site work in order to prepare for the construction. It is anticipated that the Joint Venture will attract high potential enterprises from CASC to the Park.

## Chairman's Statement

The mission of the Park is to become the economic focal point for CASC's industries. Being a 80% controlling shareholder of the Joint Venture, the Group will utilize this investment project to establish a platform with an aim to explore and realize orderly merger and interactive development of aerospace and advanced-technology industries in the PRC. As the developer, manager and operator of the Park, the Joint Venture will ensure that those enterprises' projects entering into the Park will comply with the relevant requirements of the Shanghai Municipal People's Government. The Joint Venture will also assist those enterprises from CASC to introduce capital investments.

### BUSINESS PROSPECT

Following the completion of the third phase extension work of Huizhou Industrial Park, the Group's overall production capacity will be enhanced. It is anticipated that the hi-tech manufacturing business will maintain a steady growth and contribute a stable foundation to generate profits for the Group.

In relation to the complex development of the Park, the Group's Joint Venture in Shanghai will endeavor to build up a professional team and work closely with the municipal government and experienced business partners so as to construct and develop the Park jointly. In the meantime, the Group will continue to strengthen the communications with CASC and fully utilize the leading resources of CASC to further explore other potential projects and investment opportunities.

Looking forward, the Board is full of confidence of the Group's future development. The Group will adhere to the above business focuses and endeavor to active development in hope of creating values for our shareholders and the community.

### APPRECIATION

Mr Rui Xiaowu, the former Chairman, resigned from the Board in July 2006 and had made substantial contributions to the Group's development during his tenure of service. On behalf of the Board, I would like to express our sincere gratitude for his valuable contribution.

I would also like to take this opportunity to thank my fellow directors for their proper leadership, as well as all the staff of the Group for their hard workings and dedication and express my sincere gratitude to all shareholders, banks and business partners for their supports to the development of the Group.

By order of the Board

**Ma Xingrui**

*Chairman*

Hong Kong, 30 March 2007