

IV Review of Operations and Prospects

1. Principal operations of the Company during the reporting period

The principal activities of the Company include mobile telecommunications, satellite communication, electromechanical and information products. Under the circumstances of downward adjustment of the world economy, relatively slow high-tech industrial development and increasingly fierce market competition, the Company grasped the opportunity of economic globalisation and sought its reasonable positioning in the economic globalisation and international division of labour. It fully utilized its advantages and strengthened international co-operation so as to line up with the world economy and succeed in bringing fast development of its principal operations and Sino-foreign joint ventures.

(1) Fast development of new principal operations. After the disposal of its original principal operations, consumer electronics business, including colour TV in the process of asset reorganisation at the end of 2000, the Company rigorously developed new principal operations. The Company basically reached the target of replacement of its original colour TV business by new principal operations which had been developing fastly. For mobile telecommunications, more than 300,000 mobile phones were produced and sold in the first half of the year, ranking on the top list among domestically made mobile phones. The Company also developed the production and sale of distanced control interchangeable machines as a new growth point. For satellite communication, new significant breakthrough was achieved on the research and manufacturing of new products and technology. Many orders were received, laying a solid foundation for the development in the second half of the year and next year. There was also growth in electromechanical and information product business in the first half of the year. New principal operations had been achieving a significant growth, with its strong competitive advantages.

(2) Accelerated technology innovation. The Company strengthened its technology development and innovation, joint development of production and research, as well as international co-operation. The Company also made efforts to develop its own technology and to form core competitiveness. Many new important technology breakthroughs and successful technology innovations were achieved.

(3) Continuous strong growth in Sino-foreign joint ventures. By fully utilizing the important role of Chinese party and the competitive advantages of joint ventures, the Company positively procured a favourable position in the adjustment of the structure of the world economy. In addition, by strengthening the strategic co-operation with foreign giants

and the procurement of strategic positions of the joint ventures, the Company endeavoured to achieve continuous strong growth in Sino-foreign joint ventures. The Company also continued to expand international co-operation. Such joint ventures as MPower Batteries Nanjing Limited and 南京熊貓田村通信電源設備有限公司 had been newly established.

(4) Further enhanced internal reform and control. As required by a modern corporate system, the Company sought to perfect its management structure and change operating mechanism. The Company also made efforts to conduct reform on ownership system, strengthen financial management and enhance modern management level.

2. Operations of the principal Sino-foreign joint ventures

(1) Nanjing Ericsson Panda Communication Co. Ltd. (ENC) saw a strong growth.

ENC is a joint stock company owned as to 43% by the Company, 41% by Telefonaktiebolaget L.M. Ericsson, 10% by Ericsson (China), 3% by Hong Kong Yung Shing and 3% by Jiangsu Posts and Telecommunications. It is one of the four largest mobile telecommunications system supply centres of Ericsson. In the first half of the year, ENC further strengthened research and development in response to the fast development of mobile telecommunications in the PRC. It launched such new leading technology as GPRS and CDMA. It not only reinforced its original leading position in GSM equipment market, but also became the largest GPRS equipment supplier in the PRC and one of the major CDMA equipment suppliers. It had become an integrated supply centre providing hardware, software, research, development and services in relation to mobile telecommunications equipment. ENC completed a total of 1.186 million interchangeable lines, 25,512 loading amount of mobile primary stations and 524 mobile interchangeable machine points (MSC, BSC). Its sales revenue reached RMB6.045 billion, up 110.63% from the same period of last year; and net profit amounting to RMB288 million, up 148.28% from the same period of last year. ENC successfully bid the tender for China Unicom CDMA supply contract, which was valued at more than RMB1.7 billion, for 7 major provinces in the PRC. It also entered into a RMB7.5 billion telecommunication equipment supply agreement with Jiangsu Telecom, Jiangsu Mobile and Jiangsu Unicom. It also captured a series of material goods supply contracts for GSM network expansion and GPRS network upgrade in a number of provinces. All these not only guaranteed a substantial growth in the operations for the year, but also laid a solid foundation for future continuous strong growth.

(2) Nanjing Ericsson Panda Mobile Terminals Co., Ltd (EPC) saw a fast growth.

EPC is a joint stock company owned as to 35% by the Company, 40% by Telefonaktiebolaget L.M. Ericsson and 25% by Ericsson (China). Under the fierce mobile

phone market competition in the first half of the year, EPC fully utilized high operational efficiency, good quality, low costs and competitive advantage to control costs, increase localisation and strengthen exportation. It was not affected by the substantial adjustment of mobile phone strategies by Ericsson. It even further enhanced its strategic position of an Ericsson global mobile phone supply centre and had a fast development in the production and operations. EPC completed 1.3 million mobile phones, up 80.6% from the same period of last year; in which 0.5 million were for export. Sales revenue reached RMB976 million. Net profit amounted to RMB34.5 million, up 103.18% from the same period of last year.

3. Investment of the Company

(1) Change of use of net proceeds

The Company issued H shares and A shares respectively in April and November, 1996. RMB 30 million were intended to invest in hybrid fibre cable ("HFC") project and RMB 29.8 million to invest in digital video disc ("DVD") project. As at 31 December 2000, a total of RMB 9.95 million were invested in the HFC project and there were RMB 20.05 million not yet invested; a total of RMB 10.66 million were invested in the DVD project and there were RMB 19.14 million not yet invested. The total proceeds which had not been invested in the above-mentioned two projects amounted to RMB 39.19 million.

As Nanjing ADC Broadband Communication Co., Ltd. (in relation to HFC project) was liquidated and the DVD project was disposed of to PEGL pursuant to the assets reorganisation of the Company in 2000, the Company no longer needed to continue to invest in the above-mentioned two projects. The use of net proceeds needed to be changed.

It was resolved at the 16th session of the 3rd board of directors meeting of the Company that the remaining balance of the net proceeds will be used in the two projects as follows:

- (i) to invest RMB 4.2 million in MPower Batteries Nanjing Limited; and
- (ii) the balance of RMB 34.99 million as additional working capital.

The decision on the above-mentioned change of use of net proceeds by the board of directors was approved at the tenth session of the supervisory committee meeting of the Company.

The resolution of the change of use of net proceeds was considered and approved at the Annual General Meeting on 29th June 2001.

The aforesaid resolutions at board meeting, supervisory meeting and Annual General Meeting were published in Shanghai Securities Journal, China Securities Journal, Hong Kong Wen Wei Po and Hong Kong iMail on 11th May 2001 and 3rd July 2001 respectively.

During the reporting period, the above changes were implemented.

(2) Other Major Investments by Non-proceeds

(i) Continuous investment in Intenna (Nanjing) Co., Ltd.. Its registered capital is RMB 10 million, in which the Company holds 35% interests. Pursuant to an agreement, the Company shall make a total investment of RMB 3.5 million. The Company invested RMB 700,000 in 2000 and RMB 1.05 million during the reporting period respectively, totalling RMB 1.75 million. That company is mainly engaged in research, development, production and sale of advanced antenna system.

(ii) Investment in 南京熊貓網通技術有限公司. Its registered capital is RMB 5 million, in which the Company holds 70% interests. During the reporting period, the Company invested RMB 3.5 million. That company is mainly engaged in the operation, development, production and sale of systems, products, software, electronic appliances and related high-tech products in respect of digital communications for mobile communications, networking and computing communications; and the provision of network designs, integrated systems and related technological, operational and information services.

4. Prospect in the second half-year

In the second half of the year, the Company will grasp every opportunity to expand its production and operations, increase economic effectiveness and fulfil the following work:

(1) To continue to accelerate the development of principal operations, further increase investment in the principal operations, enhance the principal operations so as to gain a leading market position.

(2) To further expand product categories and adjust product mix in telecommunications and information industry. While the Company rigorously develops mobile telecommunications, satellite communication, electromechanical and information industries, the Company will also develop optical communication and new elements and parts so as to foster a new economic growth point.

(3) To further strengthen research and development and to accelerate new product launch.

The Company will set up a new mobile telecommunications engineering development center and an optical communication engineering development center so as to enhance the renovation of existing research and development department and to increase technology innovation capability.

(4) To strengthen technology renovation and to step up the technology renovation projects including the replacement of imported specialised technology renovation projects and broadband multimedia integrated satellite communication system by SMT equipment so as to further enhance the future corporate development.

(5) To further speed up the development of sino-foreign joint ventures and to grasp the opportunity of fast mobile telecommunications development. The Company will tremendously develop production and timely perform order contracts. In addition, the Company will continue to launch new products for customers and develop overseas market for expanding export. It aims at a higher growth in operations and economic effectiveness in the second half of the year than the first half. Furthermore, the Company will strengthen research and development of Sino-foreign joint ventures so as to increase their core competitiveness. The Company will increase investment in ENC and EPC in order to ensure their continuous long-term development.

(6) To deepen reform and to strengthen management as well as system innovation. The Company will arouse incentive among the staff.