

V. MANAGEMENT DISCUSSION AND ANALYSIS

(1) Principal operations during the reporting period

1. Principal operations of the Company

The principal activities of the Company include mobile telecommunications, satellite communication, electromechanical and information products, with mobile telecommunications being its major operations.

Since the beginning of the year, the domestic and overseas telecommunication markets still experienced the difficulties of weak investment atmosphere. Such situation had significant impact on the development of the telecommunication manufacturing industry. In view of keen competition, the Company fully utilised its own competitive advantages, actively adjusted the product structure, continued to speed up the development of new products, focused on the expansion in domestic and overseas markets, strived to improve management and reduce costs, further strengthened international co-operation and achieved better development of various principal operations and Sino-foreign equity joint ventures. The business of mobile phones under the brand name of "Panda" achieved significant breakthrough in its growth with rapid increase in market share. During the first half of the year, a total of 10 new medium to high class products of mobile phones under the brand name of "Panda" with leading market position were introduced into the market. The monthly sales and production volume had a substantial growth.

According to the latest market research report issued by Sainuo Company, mobile phones under the brand name of "Panda" was ranked as the ninth in the domestic market and the fifth in terms of mobile phones produced in the PRC. As a result of the rapid development of the business of mobile phones under the brand name of "Panda" and stable growth of other businesses, there was significant increase in the Company's principal operating income and net profit in the first half of the year. In accordance with the PRC accounting standards, revenue from principal operations for the period from January to June 2003 amounted to RMB1,523,000,000, representing an increase of 363% over the corresponding period of the previous year; net profit amounted to RMB32,853,000, representing an increase of 61.95% over the corresponding period of the previous year. In accordance with the accounting principles generally accepted in Hong Kong, revenue from principal operations for the period from January to June 2003 amounted to RMB1,522,000,000, representing an increase of 363% over the corresponding period of the previous year; net profit amounted to RMB32,866,000, representing an increase of 26.56% as over the corresponding period of the previous year.

2. Revenue from principal operations based on classification of products are as follows (Prepared under the PRC accounting standards (unaudited))

Unit: RMB

Classification of products	Sales revenue	Contribution to revenue from principal operations	Gross profit margin %	
			Cost of sales	Gross profit margin %
Mobile telecommunications	1,306,952,709.63	85.82	1,182,206,184.18	9.54
Satellite communications	19,361,641.03	1.27	15,397,786.11	20.47
Electromechanical	72,328,779.54	4.75	62,820,611.28	13.15
Electronic information	63,723,294.94	4.18	58,137,989.64	8.76
Others	60,668,049.50	3.98	54,250,496.07	10.58
Total	1,523,034,474.64	100	1,372,813,067.28	9.86

3. Operations of the principal Sino-foreign joint ventures

- (1) Nanjing Ericsson Panda Communication Co., Ltd. (ENC)

ENC is a joint venture company owned as to 27% by the Company, 25% by Telefonaktiebolaget L.M. Ericsson, 26% by Ericsson China, 20% by China PTIC and 2% by Hong Kong Yung Shing. It is one of the three largest mobile telecommunications system supply centre of Ericsson world wide. It mainly engaged in producing GSM, GPRS and CDMA mobile telecommunication products and network communication systems. It was the largest GSM and GPRS equipment supplier and one of the major CDMA equipment suppliers in the PRC. Following the business reorganisation in 2002, ENC is implementing new development plan and gradually elaborate the function as the logistic supply centre in the Asian-Pacific region of Ericsson. While ENC progressively develops businesses in the PRC, it will further expand the export of it products. In the first half of the year, the business of ENC turnaround from business decline and achieved relatively faster recovery and growth. The sales income amounted to RMB2,911,000,000 and the net profit was RMB126,000,000.

- (2) Beijing Ericsson Mobile Communication Co., Ltd. (BMC)

BMC is a joint venture company owned as to 20% by the Company, 25% by Telefonaktiebolaget L. M. Ericsson, 16% by Ericsson China, 10% by Sony Ericsson, 27% by China PTIC and 2% by Hong Kong Yung Shing. Following the business reorganisation in 2002, BMC concentrated its efforts in the development for the production of Sony Ericsson mobile terminals (mobile phones). In the first half of the year, BMC achieved significant breakthrough in introducing new products, expanding domestic and overseas market and developing production scale. The sales income amounted to RMB2,294,000,000 and the net profit was RMB40,000,000.

- (3) Nanjing Microcell Panda Mobile Terminals Co., Ltd. (MPC)

MPC is a joint venture company owned as to 35% by the Company, 65% by Microcell (Luxemburg). It mainly engages in manufacture of mobile phones. In view of keen market competition for mobile phones in the first of the year, MPC actively strived to expand the production for internationally famous brands and expand the international market. However, the current production scale falls short of the breakeven level. As a result, relatively larger amount of loss has been incurred. In the first half of the year, 700,000 mobile phones have been produced, of which 600,000 mobile phones were exported; the sales income amounted to RMB491,000,000; and the net loss was RMB38,000,000.

(2) Summary of analysis of operational performance and financial position

1. Analysis of reasons for movements of principal financial indicators (Prepared under the PRC accounting standards (unaudited))

(Unit: RMB)

Items	January to June 2003	January to June 2002	Change %
Revenue from principal operations	1,523,034,474.64	328,825,023.17	363
Profits from principal operations	148,974,057.61	39,122,419.25	280
Net profit	32,853,390.62	20,285,506.41	61.95
Increase in cash and cash equivalents	(415,524,486.77)	261,738,995.61	(259)

Items	30 June 2003	31 December 2002 (Audited)	Change %
Total assets	3,501,591,609.50	2,727,635,445.47	28.37
Shareholders' funds	1,063,334,599.04	1,030,356,081.95	3.20

Analysis of reasons for movements:

The increases in revenue from principal operations, profits from principal operations and net profit were mainly attributable to the significant growth in the business and improvement in results of mobile phones. The change from net increase in cash and cash equivalents to net decrease in cash and cash equivalents and the relatively significant decrease in volume were due to an increase in working capital required for advance payment as a result of expansion of scope of mobile communications products.

2. Financial Resources and Cash Flow Situation

Gearing: as at 30 June 2003, pursuant to the accounting principles generally accepted in Hong Kong, the consolidated gearing ratio (the ratio of total liabilities to total assets) of the Company was 68.58%; net current assets amounted to RMB79,696,000; current ratio was 1.04; quick ratio was 0.71.

Monetary funds: as at 30 June 2003, in accordance with accounting principles generally accepted in Hong Kong, bank balances and cash amounted to RMB427,000,000.

Borrowings: as at 30 June 2003, in accordance with accounting principles generally accepted in Hong Kong, total loans amounted to RMB1,690,000,000 with interest rate of approximately 4.54% per annum. The Board believes that the Company will be able to maintain or expand its existing banking facilities to meet and settle every financial liabilities of the Company.

Refer to Note VI to the Financial Report prepared in accordance with the PRC accounting rules and regulations as set out on p. 33 for details of the Company's contingent liabilities as at 30 June 2003.

During the reporting period, the Company did not carry out any hedge against the risks of exchange rates or pledge any assets.

Refer to Note 2 to Short Term Borrowings of Note 15 to the main items of Consolidated Financial Statements of the Financial Report prepared in accordance with the PRC accounting rules and regulations as set out on P. 24 for details of the Company's pledge of assets as at 30 June 2003.

(3) Investments in the reporting period

1. The Company did not utilise any proceeds raised in the reporting period or proceeds raised in the previous period.
2. The Company did not have any significant investment financed by funds other than proceeds from subscriptions.

(4) Operation plans for the second half of the year

In the second half of the year, there will be faster growth in the PRC economy and recovery in telecommunication equipment investment. These will lead to new development opportunities for the Company and its joint venture companies. The Company will continue to carry out adjustment in structure, development of new products, exploration of markets and management works for Sino-foreign joint venture companies and internal reforms. The Company will further speed up the pace of development and strive to achieve a relatively greater growth in the second half of the year as compared with the first half of the year. The Company will endeavour to achieve greater development for mobile phones under the brand name "Panda" in the second half of the year; introduce ten new products; plan to double the volume of the production and sales of mobile phones compared with that in the first half of the year; and further increase the market share. The Company will strive to achieve faster growth in satellite communication, electromechanical equipment and electronic information businesses. The joint venture companies ENC and BMC will further expand production, increase sales and strive to achieve relatively greater degree of growth. The joint venture company MPC will further develop its operation scale, obtain more sales orders and strive to turnaround from a loss position to a profitable position in the second half of the year. The Company will endeavour to ensure that various works will reach a new platform.

(5) Employees of the Company

As at 30 June 2003, there were 2,136 employees in the Company, 1,153 of which were engaged as production staff, 534 of which were engaged as technical staff, 128 of which were engaged as sales personnel, 56 of which were engaged as financial staff, 256 of which were engaged as administration staff. There were 523 retirees, for whom the Company undertook to pay retirement pension.

(6) Purchase, sale and redemption of listed securities of the Company

During the reporting period, the Company had not redeemed any listed shares of the Company, and neither the Company nor any of its subsidiaries had purchased or sold any listed shares of the Company.

(7) Pre-emptive right

In accordance with the relevant law of the People's Republic of China and the Articles of Association of the Company, there was no provision for pre-emptive right.