

(2) **New appointments and dismissals of Directors, Supervisors and senior management during the Reporting Period.**

At the Annual General Meeting convened on 12 May 2004, Mr. Li Anjian, Mr. Zhang Zuzhong, Ms. Liu Ailian, Mr. Zhou Zhenyu, Mr. Zhu Lifeng and Mr. Tang Hongqing were elected as the Directors of the Fifth Board of Directors of the Company; Ms. Wan Hui, Mr. Ma Chung Lai Lawrence and Mr. Cai Lianglin were elected as the Independent Directors of the Fifth Board of directors; Ms. Zhang Zhenping was elected as the supervisor of the Fifth Supervisory Committee of the Company; Mr. Wu Shiyuan and Ms. Sun Suhua were elected as the Independent Supervisor of the Fifth Supervisory Committee. Ms. Chen Ning and Mr. Zhong Youxiang were elected as the Supervisors of the staff representative of the Fifth Supervisory Committee.

At the first meeting of the Fifth Board of Directors convened on 12 May 2004, Mr. Li Anjian was appointed as General Manager of the Company; Mr. Wang Hongjin, Mr. Shi Qiusheng, Mr. Liu Kun and Ms. Chen Ping were appointed as Deputy General Manager of the Company; Mr. Wu Liulin was appointed as Chief Accountant of the Company; and Mr. Chen Ping was appointed as Secretary to the Board of Directors.

**V. MANAGEMENT DISCUSSION AND ANALYSIS**

(1) **Principal operations during the Reporting Period**

1. **Principal operations of the Company**

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

In the first half of the year, the Sino-foreign joint venture enterprises of the Company seized the opportunities of the rebound of investment in domestic and foreign telecommunications market. Sales revenue and profit from manufacture of telecommunications equipment and sales of Sony Ericsson mobile phones recorded significant growth, leading to the substantial increase in investment income and net profit of the Company. Panda mobile phones business, the principal operation of the Company, was subject to the structural adjustment of its domestic mobile phone market as well as its intense competitions. Targeting at the right direction of development and overcoming various difficulties, the Company strived to enhance its research and development standard. The Company launched various models of self-developed mobile phones in the market in the first half of the year, drawing a very satisfactory market response. The Company will further launch self-developed new products in the second half of the year, as well as strengthen its development in overseas market in reliance of the Company's advantage in carrying out research and development itself in order to expand export and achieve greater development.

In accordance with PRC accounting system, the income from principal operations of the Company from January to June amounted to RMB1,231,000,000, representing a decrease of 19.24% as compared with the corresponding period of last year; net profit amounted to RMB58,000,000, representing an increase of 76.55% as compared with the corresponding period of last year. In accordance with the accounting principles generally accepted in Hong Kong, the income from principal operations of the Company from January to June amounted to RMB1,229,000,000, representing a decrease of 19.26% as compared with the corresponding period of last year; net profit amounted to RMB55,840,000, representing an increase of 69.91% as compared with the corresponding period of last year calculated on a comparable basis.

2. **Revenue from principal operations based on classification of products (Prepared under the PRC accounting system, unaudited)**

Unit: RMB

Classification of products	Sales revenue	Percentage to principal operations (%)	Cost of sales	Gross profit margin (%)
Mobile telecommunications	944,375,463.70	76.73	837,397,138.28	11.33
Satellite communications	4,244,386.29	0.34	3,198,233.07	24.65
Electromechanical	101,226,943.86	8.22	85,982,488.50	15.06
Electronic information	125,282,836.44	10.18	120,531,777.36	3.79
Others	55,599,092.39	4.52	46,221,873.41	16.87
Total	1,230,726,722.68	100	1,093,331,510.62	11.16

3. **Operations of the principal controlling and jointly controlling companies**

(1) Nanjing Panda Mobile Communication Equipment Co., Ltd. (PMC)

PMC is a company owned by the Company, holding 51% of equity interest, and Mr. Ma Zhiping, holding 49% of equity interest. PMC is mainly engaged in sales of mobile communication terminal products and related services revenue. Sales and net profit in the first half of 2004 amounted to RMB937,000,000 and RMB150,000,000, representing decreases of 24.37% and 91.22% respectively as compared to that of last year.

(2) 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 mainly engaged in producing GSM, GPRS and CDMA mobile telecommunication products and network communication systems. It serves as Ericsson's logistic supply hub in the Asia Pacific region and is the largest GSM and GPRS equipment supplier and one of the major CDMA equipment suppliers in the PRC. Benefiting from the pick up of investment in domestic telecommunications equipment market in the first half of 2004, ENC's sales revenue and profit increased significantly. In accordance with PRC accounting system, the sales revenue realised in the first half of the year amounted to RMB5,599,000,000, representing an increase of 92.34% as compared with the corresponding period of last year; net profit realised amounted to RMB193,000,000, representing an increase of 53.17% as compared with the corresponding period of last year.

(3) Beijing Sony Ericsson Mobile Communication Co., Ltd. (BMC) (Originally Beijing Ericsson Mobile Communication Co., Ltd.)

BMC is a joint venture company owned as to 20% by the Company, 51% by Sony Ericsson, 27% by China PTIC and 2% by Hong Kong Yung Shing. It is principally engaged in the production of Sony Ericsson mobile terminals (mobile phones). Production of BMC mobile phones realised an ultra-normal development in the first half of 2004. In accordance with PRC accounting system, the sales revenue realised in the first half of the year amounted to RMB5,455,000,000, representing an increase of 137.69% as compared with the corresponding period of last year; net profit realised amounted to RMB163,000,000, representing an increase of 307.50% as compared with the corresponding period of last year.

(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 system, unaudited)**

Items	January to	January to	Unit: RMB
	June 2004	June 2003	Change %
Revenue from principal operations	1,230,728,722.68	1,523,034,474.64	(19.19)
Profits from principal operations	135,375,818.67	148,974,057.61	(9.13)
Net profit	58,001,551.57	32,853,390.62	76.55
Increase in cash and cash equivalents	(423,936,023.13)	(415,524,486.77)	(2.02)
Items	30 June 2004	31 December 2003	Change %
Total assets	4,659,023,852.69	3,592,429,930.02	29.69
Shareholders' funds	1,186,975,535.86	1,128,973,984.29	5.14

Note: Increase of 76.55% in net profit was mainly due to the significant increase in investment income.

2. **Liquidity of capital**

In accordance with the accounting principles generally accepted in Hong Kong, as of 30 June 2004, the Company's consolidated gearing ratio was 71.04%, current net asset value was RMB333,385,000, liquidity ratio was 1.10, quick ratio was 0.86, bank deposits and cash were approximately RMB365,000,000 and total loan amount was approximately RMB1,346,000,000 with an annual interest rate of 5.04%.

(3) **Investments in the Reporting Period**

1. **The Company did not utilise any proceeds raised in the Reporting Period or continue any use thereof commencing from the previous periods.**
2. **The Company did not have any principal investment financed by non-raised funds.**

(4) **Business plans for the second half of the year**

The Company will continue to dedicate its effort in the work of new product development, market exploration, Sino-foreign joint venture and internal reform management in the second half of the year in order to further accelerate the pace of development. Joint ventures such as ENC and BMC will further expand their productions in order to materialise the pre-set target in the year as a way to maintain a relatively larger growth. Panda mobile phones will proactively respond to the changes in the market in the second half of the year by quickening the speed of the introduction of new products into the market and improving internal management and after-sales services in order to strive for a relatively greater growth as compared with the first half of the year. Satellite communications, electromechanical and information products also aspire for speedy growth to ensure that the annual operational results of the Company will step further ahead.

(5) **Employees of the Company**

As at 30 June 2004, there were 1,977 employees in the Company, 1,055 of which were engaged in production, 505 of which were engaged in technology, 118 of which were engaged in sales, 68 of which were engaged in finance, 231 of which were engaged in administration. There were 438 retirees, for whom the Company undertook to pay retirement pension.

(6) **Purchase, sale and redemption of shares of the Company**

During the Reporting Period, the Company and its subsidiaries did not purchase, sell or redeem any listed shares of the Company.

(7) **Pre-emptive right**

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

**VI. SIGNIFICANT EVENTS**

(1) **General Corporate Governance**

The Company continues to improve its corporate governance and to regulate its operation in accordance with the spirit of the relevant documents issued by China Securities Regulatory Commission ("CSRC") and requirements under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. In compliance with the requirements of the reform report reviewed during the official inspection at the end of last year, the Company amended part of its Articles of Association. Resolutions in relation to the amendment were passed at the annual general meeting held on 12 May 2004. At the meeting, the Fifth Board of Directors of the Company was also formed by means of poll. One-third of the members of the newly formed Board of Directors are independent directors, among which one is a certified accountant, as required by the relevant rules of CSRC.

Issue in relation to the General Manager of the Company acting concurrently as General Manager of controlling shareholder, the Company has been proactively discussing the matter with Party Committee of Jiangsu Province. The relevant matter will soon be resolved properly.

- (2) During the Reporting Period, the Company did not make any profit appropriation which was recommended previously for distribution in the Reporting Period. No reserves were transferred to increase the share capital and no new shares were issued. The Company will not distribute interim profits, nor will it increase its share capital by converting from surplus reserve in the half year of 2004.

- (3) There was no litigation and arbitration which was material to the Company that occurred during the Reporting Period or occurred in the previous period and subsisting during the Reporting Period.