

V. MANAGEMENT DISCUSSION AND ANALYSIS

(1) Principal operations during the Reporting Period

1 Principal operations of the Company

The Company is principally engaged in satellite communication products, electromechanical products and electronic information products etc.

In the Reporting Period, there was a sound development for the principal operations, for which the sales revenue recorded significant growth as compared with the corresponding period last year. The profit margin of satellite communication products also recorded a significant growth. The Sino foreign joint ventures invested by the Company continued to maintain a sound momentum for growth.

In accordance with PRC Accounting Standards, the income from principal operations of the Company from January to June 2005 amounted to RMB340 million, representing a decrease of 72.37% as compared with the corresponding period of last year; net profit realized amounted to RMB44.2613 million, representing a decrease of 23.69% as compared with the corresponding period of last year. In accordance with the Generally Accepted Accounting Principles in Hong Kong, the income from principal operations of the Company from January to June in 2005 amounted to RMB339 million, representing a decrease of 72.44% as compared with the corresponding period of last year; net profit amounted to RMB44.9310 million, representing a decrease of 19.54% as compared with the corresponding period of last year.

2 Revenue from principal operations based on classification of products (Prepared under the PRC Accounting Standards, unaudited)

Unit: RMB

Classification of products	Sales revenue	Percentage to principal operations (%)	Cost of sales	Gross profit margin (%)
Satellite communications	30,939,120.24	9.10	21,998,460.24	28.90
Electromechanical	155,666,483.01	45.78	136,763,690.07	12.14
Electronic information	110,506,706.91	32.50	98,665,103.75	10.72
Mobile telecommunications	10,134,216.92	2.98	9,740,803.76	3.88
Others	32,779,912.30	9.64	26,077,706.76	20.45
Total	340,026,439.38	100	293,245,764.58	13.76

3 Operations of the principal investee companies

(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 Information Corporation and 2% by Hong Kong Yung Shing. It is mainly engaged in manufacturing GSM, GPRS and CDMA mobile telecommunication system products and network communication system equipment. It is the main logistics supplier of Ericsson in the Asian Pacific region as well as the largest supplier of GSM and GPRS equipment and main supplier of CDMA equipment in the PRC. In accordance with PRC Accounting Standards, the sales revenue realised in the first half of the year amounted to RMB4.051 billion, representing a decrease of 27.65% as compared with the corresponding period of last year; net profit realised amounted to RMB133 million, representing a decrease of 31.09% as compared with the corresponding period of last year.

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

BMC is a joint venture company owned as to 20% by the Company, 51% by Sony Ericsson, 27% by China PTIC Information Corporation and 2% by Hong Kong Yung Shing. It is principally engaged in the production of Sony Ericsson mobile terminals (mobile phones). In accordance with PRC Accounting Standards, the sales revenue realised in the first half of the year amounted to RMB8.065 billion, representing an increase of 47.85% as compared with the corresponding period of last year; net profit realised amounted to RMB303 million, representing an increase of 85.89% 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 Standards, unaudited)

Unit: RMB

Items	January to June 2005	January to June 2004	Change %
Revenue from principal operations	340,026,439.38	1,230,728,722.68	(72.37)
Profits from principal operations	45,350,186.53	135,375,818.67	(66.50)
Net profit	44,261,274.56	58,001,551.57	(23.69)
Increase / (decrease) in cash and cash equivalents	107,193,193.69	(423,936,023.13)	125.29
Items	30 June 2005	31 December 2004	Change %
Total assets	2,668,752,418.08	2,741,888,102.14	(2.67)
Shareholders' funds	1,226,258,567.17	1,181,997,292.61	3.74

Explanations: The revenue and profit from principal operations in the Reporting Period decreased by 72.37% and 66.50% respectively as compared with the corresponding period last year, mainly attributable to the changes in the scope of consolidation of the consolidated statement in the Reporting Period and the correspond period last year.

2 Liquidity of asset

In accordance with the Generally Accepted Accounting Principles in Hong Kong, as of 30 June 2005, the Company's consolidated gearing ratio was 52.19%, current net asset value was RMB303 million, current ratio was 1.22, quick ratio was 1.07, bank deposits and cash were RMB209 million and total loan amount was approximately RMB939 million with a standard annual interest rate of 5.58%.

(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 material investment financed by non-raised funds.

(4) **Business plans for the second half of the year 2005**

The Company will continue to grasp its principal operation in the second half of the year 2005 and maintain the sustained and steady development of the joint-venture enterprise. The Company will further enhance its internal management, perfect its internal system, deepen internal reform, lower expense of cost as well as increase economic effectiveness.

(5) **Changes and handling of matters involved in the audited report with qualified opinions presented by registered accountant in the financial statement of annual report 2004**

The financial statements for the year ended 31 December 2004 were audited by Horwath Hong Kong CPA Limited and Shine Wing Certified Public Accountants and their reports were qualified on accounts of limitation of audit scope involving the scope of consolidation and provisions for bad debt. Regarding the debt transfer of receivable of RMB500 million from Nanjing Panda Mobile Communication Equipment Co. Ltd. ("Panda Mobile") to Jiangsu Province Investment Management Company Limited ("Jiangsu Investment Management"), the Company is still proactively negotiating the repayment matter with Jiangsu Investment Management. Jiangsu Investment Management planned to transfer some assets upon conducting reasonable valuation in accordance with fair and reasonable terms to the Company in order to offset the debt. The Company will discuss and confirm actual arrangement of related payment with Jiangsu Investment Management as soon as possible. It is expected that the debt will be repaid to the Company by the end of 2005.

(6) **Employees of the Company**

As of 30 June 2005, there were 1,923 employees in the Company, of which 1,128 were engaged in production, 397 in technology, 45 in sales, 55 in finance and 298 in administration and management. There were 739 retirees, for whom the Company undertook to pay retirement pension.