

V. MANAGEMENT DISCUSSION AND ANALYSIS

(I) Principal operations during the Reporting Period

1. Principal operations of the Company

The principal operations of the Company are satellite communication products, electromechanical products, electronic information products and electronic manufacturing business.

In 2006, the Company will continue to put efforts on technological improvement, to secure investment in R&D of new products and technology, to nurture and keep close eye on business with good development prospect, such as satellite communication and electronic manufacturing business, to strengthen control management and hedge against operation risks, in order to achieve a stable development of the businesses. Meanwhile, the development of sino-foreign joint venture enterprise remains good.

Under the PRC accounting standards, revenue from principal operations of the Company for January to June 2006 amounted to RMB356 million, representing an increase of 4.61% as compared with the corresponding period of last year; net profit attributable to shareholders of the Company amounted to RMB31.1442 million, representing a decrease of 29.64% as compared with the corresponding period of last year. Under the HK GAAP, revenue from principal operations of the Company for January to June 2006 amounted to RMB354 million, representing an increase of 4.43% as compared with the corresponding period of last year; net profit attributable to shareholders of the Company amounted to RMB32.994 million, representing a decrease of 26.57% as compared with the corresponding period of last year.

2. Principal operations by business or product segments (Prepared under the PRC accounting standards) (unaudited)

Unit: RMB'000

Business or product	Principal operating income	Principal operating costs	Gross profit margin (%)	Revenue from principal operations increase / (decrease) over last period (%)	Principal operating costs increase / (decrease) over last period (%)	Gross profit margin increase / (decrease) over last period (%)
Electronic manufacturing	104,827	86,154	17.81	14.50	11.40	14.68
Electronic information	123,080	111,898	9.09	21.27	20.46	7.32
Electromechanical	106,584	91,183	14.45	20.60	15.50	35.30
Satellite communications	17,100	10,640	37.78	(50.75)	(52.88)	8.07
Others	4,115	3,987	3.11	(82.77)	(81.44)	(69.16)
Total	355,706	303,862	14.57	4.61	3.62	5.89

3. Operation of the principal controlling and investee companies

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

ENC is held as to 27% by the Company, 25% by Telefonaktiebolaget L.M. Ericsson, 26% by Ericsson (China), 20% by China Potevio Co., Ltd. and 2% by Hong Kong Yung Shing Enterprise Company ("Yung Shing"). ENC is mainly engaged in producing products, such as GSM, GPRS, CDMA mobile telecommunication system products and network communication systems. As a logistic centre in Asia Pacific region for Ericsson, it is also the largest supplier of GSM and GPRS equipment and one of the major CDMA equipment suppliers in the PRC. Under the PRC accounting standards, it recorded sales revenue of RMB4,411 million in the Reporting Period, representing an increase of 8.89% as compared with the corresponding period of last year and recorded net profit of RMB169 million, representing an increase of 27.07% when compared to the corresponding period of last year.

(2) Beijing SE Putian Mobile Communication Co., Ltd. ("BMC")

BMC is held as to 20% by the Company, 51% by Sony Ericsson Mobile Communication Limited, 27% by China Potevio Co., Ltd. and 2% by Yung Shing. BMC is mainly engaged in manufacturing of mobile terminals (mobile phones) under the brand of Sony Ericsson. Under the PRC accounting standards, it recorded sales of RMB9,553 million in the Reporting Period, representing an increase of 18.45% as compared with the corresponding period of last year and recorded net profit of RMB119 million, representing a decrease of 60.73% as compared to the corresponding period of last year.

(II) 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 2006	January to June 2005	Change (%)
Revenue from principal operations	355,706,000.15	340,026,439.38	4.61
Profits from principal operations	49,739,359.30	45,350,186.53	9.68
Net profit	31,144,193.10	44,261,274.56	(29.64)
Increase / (decrease) in cash and cash equivalents	45,364,724.21	107,193,193.69	(57.68)
Items	30 June 2006	31 December 2005	Change (%)
Total assets	2,730,911,264.54	2,640,844,839.45	3.41
Shareholders' funds	1,288,967,544.02	1,258,237,459.35	2.44

Explanations: The net profit in the Reporting Period decreased by 29.64% as compared with the corresponding period of last year, mainly due to a decrease in the Company's investment gain because the joint venture, Beijing SE Putian Mobile Communications Co., Ltd. recorded a significant decrease in net profit for the first half of 2006.

2. Liquidity of asset

In accordance with the generally accepted accounting principles in Hong Kong, as at 30 June 2006, the Company's consolidated gearing ratio (the ratio of total liability to total assets) was 49.22%; current net assets value was RMB312 million; liquidity ratio was 1.24; quick ratio was 1.06; bank deposits and cash were RMB361 million; total loan amounted to approximately RMB925 million with a standard annual interest rate of 5.85% (the rate is 6.12% since 19 August 2006).

(III) Investments in the Reporting Period

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

(IV) Business plan for the second half of the year 2006

In the second half of 2006, based on the foundation of the current principal businesses, including satellite telecommunication, electromechanical, electronic information and electronic manufacturing business, the Company will adjust its business structure and strengthen business integration to speed up the stable development of principal businesses, enhance international cooperation to secure stable and increase investment return and improve the operating results of the Company.

(V) Employees of the Company

As at 30 June 2006, there were 1,965 employees in the Company, of which 1,191 were engaged in production, 384 in technology, 41 in sales, 61 in finance and 288 in administration and management. There were 727 retirees, for whom the Company undertook to pay retirement pension. The employees remuneration during the Reporting Period was RMB30,781,941.48.