A. Principal operating results of the Company during the Reporting Period

1. Principal operation of the Company

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

In 2006, the Company promoted technical renovation, enhanced the internal control system, and strengthened the corporate management and prevented operation risks by expanding R&D investment. Satellite communication, electronic manufacture, electromechanical and electronic information products and businesses made great strides. Meanwhile, the Company strengthened international cooperation, and the business of joint ventures including ENC and BMC grew steadily, which ensured the Company's investment income.

Under the PRC accounting standards, revenue from principal operations of the Company for the year amounted to RMB885 million, representing an increase of 3.59% as compared with that of last year; profit of principal operations of the Company for the year amounted to RMB137 million, representing an increase of 10.21% as compared with that of last year; net profit amounted to RMB89 million, representing an decrease of 0.62% as compared with that of last year. Under the HKFRSs, revenue from principal operations of the Company for the year amounted to RMB880 million, representing an increase of 3.54% as compared with that of last year; profit of principal operations of the Company for the year amounted to RMB137 million, representing an increase of 10.21% as compared with that of last year; net profit attributable to shareholders amounted to RMB93 million, representing an increase of 0.38% as compared with that of last year.

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

Unit 000: RMB'000

Business or product	Principal operating income	Principal operating costs	Gross profit margin (%)	Revenues from principal operation increase(+)/ decrease (-) over last year	Principal operating costs increase (+)/decrease(-) over last year	Gross margin increase(+)/ decrease(-) over last year
Electronic manufacturing	238,797	192,301	19.47	64.26	2.26	20.26
Electronic information	193,745	172,970	10.72	(10.32)	(11.50)	12.49
Electromechanical	221,080	181,468	17.92	10.85	1.49	73.14
Satellite communications	179,562	131,314	26.87	1.61	4.09	(6.08)
Others	51,866	66,158	(27.56)	37.11	72.90	(2,296.52)
Total	885,050	744,211	15.91	3.59	2.41	6.49

A. Principal operating results of the Company during the Reporting Period *(Continued)*

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 ("Ericsson"), 26% by Ericsson (China) Company Limited ("Ericsson (China)"), 20% by China PTIC Information Corporation ("China PTIC"), 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. Addressing keen market competition during 2006, ENC secured and developed its domestic customers base, taking initiatives to explore GSM, GPRS and CDMA equipment sale market with expanded production scale. By pressing ahead the preparation of technology and products for 3G mobile communication equipment, ENC achieved sound progress in its production and operation.

Under the PRC accounting standards, sales revenue of ENC for 2006 amounted to RMB11.472 million, representing an increase of 57.72% as compared to the corresponding period of last year; profits from principal operations amounted to RMB392 million, representing a decrease of 2.97% as compared to the corresponding period of last year. Under financial reporting standards, net profits of ENC for 2006 amounted to RMB376 million, representing a decrease of 11.44% as compared to the corresponding period of last year.

(2) Beijing Sony Ericsson Mobile Communication Limited ("BMC")

BMC is held as to 20% by the Company, 51% by Sony Ericsson Mobile Communication Limited ("Sony Ericsson"), 27% by China PTIC and 2% by Yung Shing. BMC is mainly engaged in mobile terminals (mobile phones) under the brand of Sony Ericsson and is the principal production base of Sony Ericsson mobile.

In 2006, BMC capitalized on its technological and managerial strengths, increased investment in and accelerated R&D to create high-end products. It had been launching new products to meet the market demand, continued to expand international market, focused on import of products and recorded good economic benefits.

During the year 2006, under the Accounting Standards for Business Enterprises in the PRC, it recorded sales for the year of RMB27,021 million, representing an increase of 20.10% as compared with that of last year and recorded net profit of RMB580 million, representing a decrease of 16.13% as compared to that of last year. Under IFRS, it recorded net profit of RMB594 million, representing a decrease of 14.08% as compared to that of last year.

A. Principal operating results of the Company during the Reporting Period *(Continued)*

4. Major suppliers and consumers

For the year ended 31 December 2006, the aggregate turnover of the five major customers of the Company accounted for 38.80% of the total turnover of the Company for the year, of which turnover from the largest customer accounted for 20.36% of turnover of the Company for the year.

The aggregate amount of purchase from the five major suppliers of the Company accounted for 22.18% of the total amount of purchase made by the Company for the year, of which the purchasing amount of the largest supplier accounted for 8.43% of the total amount of purchase made by the Company for the year.

During the year, none of the directors, supervisors and their associates or shareholders had interests in the share capital of the Company's suppliers or customers mentioned above.

5. Difficulties of the operations and solutions

The Company accelerated the growth speed, expanded principal operations and endeavoured to develop fast and well by implementing scientific development view and complying with the market laws. As a result, the results from technical innovation are fast forming the vitally competitive principal operations.

B. Conditions of investment of the Company

No funds were raised by the Company during the Reporting Period. For the year, the Company did not utilize any raised funds or continue any use thereof commencing from the previous periods. No material investment financed by other non-raised funds was made.

C. Analysis on financial status of the Company

1. Financial status

The Company had a satisfactory financial status. Changes in major financial indices according to Accounting Standards for Business Enterprises in the PRC are as follows:

Unit: RMB'000

Item	**2006**	2005	Increase/ (decrease) *(%)*	Reasons
Total assets	**2,766,942**	2,640,845	4.77	
Bank balances and cash	**652,094**	347,457	87.68	Recovery of fund appropriation by holding company
Accounts receivable	**163,416**	195,674	(16.48)	
Total liabilities	**1,381,434**	1,343,766	2.80	
Long-term liabilities	**34,991**	0	—	Finance leasing
Shareholder's equity	**1,347,078**	1,258,237	7.06	
Income from principal operations	**885,050**	854,407	3.59	
Profit from principal operations	**136,762**	124,097	10.21	
Administration expenses	**207,898**	226,320	(8,14)	
Financial expenses	**52,087**	56,443	(7.72)	
Net profits	**89,147**	89,701	(0.62)	

C. Analysis on financial status of the Company *(Continued)*

2. Liquidity of capital

In accordance with HK financial reporting standards, the gearing ratio of the Company (the ratio between total liabilities and total assets), net current assets, liquidity ratio and quick ratio were 48.67%, RMB359 million, 1.27 and 1.09 respectively as at 31 December 2006 as shown in the consolidated financial statements of the Company.

Cash: bank balances and cash amounted to RMB652 million as at 31 December 2006 as shown in the consolidated financial statements of the Company.

Loans: short-term bank loans amounted to RMB874 million as at 31 December 2006 as shown in the consolidated financial statements of the Company and basic interest rate per annum was approximately 6.12% (the basic interest rate per annum was 6.39% since 18 March 2007). The Board believed that the Company can maintain or enlarge its existing bank facilities to meet various financial obligations.

D. Growth Plan for 2007

Year 2007 is a significant milestone for the Company's growth and execution of the "11th Five-year" plan, and the Company is to improve the growth quality by implementing the scientific development view, capturing development opportunities and integrating development resources and innovating development modes, and realize the development on a fast and good basis, and carefully consummate the following work:

1. The Company will create the remarkable principal operations by adhering to scientific development view and optimizing resource allocation. The Company will speed up the R&D on products such as satellite IP data, network system, satellite broadband broadcast system and capture the growth opportunity of urban rail traffic and strive for expanding the market share of AFC, ACC and electromechanical products including with independent intellectual property to form the scale advantage and core competitiveness and focus on improving the corporate economic benefits.

2. The Company is set to accelerate Sino-foreign joint ventures, especially, continuously strengthen the strategic cooperation with transnational companies including Ericsson, research and develop new products, expand new markets, promote the better grow of joint ventures and increase investment income by taking the opportunity of 3G mobile communication construction and capturing the expansion of 3G trial network.

3. The Company is well positioned to persist in innovative development, strengthen technical innovation, capitalize on the Company's technical strengths, increase investment in technical research, break through with know-how and key projects to continuously improve self-independent R&D capability and reinforce the corporate sustainable development ability.

E Potential change in accounting policies and accounting estimates and the impact on financial position and business results of the Company arising from adoption of new accounting standards for business enterprises

1. Difference in shareholders' equity interest between the existing Accounting Standards and the new Accounting Standards for Business Enterprises as at the first time adoption date on 1 January 2007:

   (1) Long-term equity investment balance

   Under relevant regulations of the new accounting standards, other long-term equity investment balances accounted for using the equity method as at 31 December 2006 were adjusted, which adjusted the retained profit to RMB44,057.65 as at 1 January 2007, of which, the equity interests attributable to the parent company increased by RMB30,840.36 and minority interests increased by RMB13,217.29.

   (2) Income tax

   Under relevant regulations of the new accounting standards, the taxable temporary difference and deductible temporary difference were determined after comparison of the book value of assets and liabilities as at 31 December 2006 with the tax base, and whereby the deferred income tax assets and liabilities were calculated. After adjustment of the difference, the retained profit was RMB18,863,243.59 as at 1 January 2007, of which the equity interests attributable to the parent company increased by RMB14,405,410.66 and minority interests increased by RMB4,457,832.93.

   (3) Minority interests

   As at 31 December 2006, the minority interests in the consolidated statements prepared in accordance with the existing accounting standards were RMB38,429,342.88. Under the new accounting standards, minority interests are presented as an item of shareholders' equity. Accordingly, the shareholders' equity as at 1 January 2007 was increased by RMB38,429,342.88.

2. Potential impact on financial position and business results of the Company arising from change in accounting policies and accounting estimates after the adoption of new accounting standards for business enterprises:

   (1) In accordance with the new "Accounting Standards for Business Enterprises No. 2 — Long-term Investment" and "No. 38 - First Time Adoption of Accounting Standards", the Company's subsidiaries, which are accounted for using the equity method under the existing accounting standards, are accounted for using the cost method. This change will decrease the investment profit of the parent company but will not affect the Company's consolidated financial statements. The long-term equity debit balance between the initial investment cost and the owner's equity of the investee enjoyed while investing under the existing accounting standards is directly recognized as investment cost and is not amortized. The change in the policy will increase the net profit of the Company.

   (2) Under the existing standards, all the research and development expenditures are charged into the profit and loss account for the current period. In accordance with the new "Accounting Standards for Business Enterprises No. 6 — Intangible Assets", development expenditures which meet certain conditions can be capitalised, which will decrease the expenditures of the Company and increase the net profit and shareholders' equity.

Chairman **Li Anjian**

E. Potential change in accounting policies and accounting estimates and the impact on financial position and business results of the Company arising from adoption of new accounting standards for business enterprises *(Continued)*

2. Potential impact on financial position and business results of the Company arising from change in accounting policies and accounting estimates after the adoption of new accounting standards for business enterprises: *(Continued)*

    (3) In accordance with the new "Accounting Standards for Business Enterprises No. 8 — Government subsidy", government subsidy which are included into profit and loss account for the current period under the existing accounting standards will be classified as those related to assets which are included in deferred income to be credited in profit and loss account over relevant periods, and those related to income which are directly credited to profit and loss account for the current period, which will decrease the net profit and shareholders' equity of the Company.

    (4) In accordance with the new "Accounting Standards for Business Enterprises No. 18 — Income Tax", income tax which was previously accounted for using the tax payable method is accounted for using liabilities method through balance sheet, which will affect the income tax for the current period of the Company, and thus affect the net profit and shareholders' equity.

    (5) Under the existing accounting standards, the welfare provision made in a proportion, and the provisions for the Labour's Union expenditures, education expenditures, basic pension insurance, unemployment insurance, work injury insurance, birth insurance and the supplementary pension insurance, housing reserve funds, and housing subsidiary for new employees paid by enterprises made based on total salary are presented as the current expenditures. In accordance with the new "Accounting Standards for Business Enterprises No. 9 — Salary", all the expenditures will be allocated according to the beneficiary; the welfare will be presented with actual payment, resulting in decrease in expenditures for the period and increase in operating cost and stock cost.

    (6) In accordance with the new "Accounting Standards for Business Enterprises No. 33 — Consolidated financial statements", minority interests are presented as an item of shareholders' equity instead presented in liabilities and shareholders' equity. The Profit or loss from minority interests in the consolidated income statement are presented under net profit instead presented as the deduction from total profit, which will increase the net profit and shareholders' equity in the consolidated financial statement of the Company.

3. The above-mentioned differences and impact may be subject to adjustment with further interpretation for the new accounting standards by Ministry of Finance.

Li Anjian
Chairman

Nanjing, the PRC
25 April 2007