



The Board of Directors is pleased to submit its report together with the audited financial statements for the year ended 31 December 2006.

Day-to-day Operation of the Board of Directors

During the Reporting Period, the Company's Board of Directors held 6 board meetings to consider and approve the following issues:

1. On 20 April 2006, the Company held the 8th meeting of the fifth Board of Directors at its headquarters. The meeting approved the 2005 Annual Report and the summary thereof, Report of the Board of Directors, Financial Statements as audited respectively by the international and domestic auditors and the Proposal for Appropriating None of the Profit for 2005. Horwath Hong Kong CPA Limited be reappointed and Yue Hua Certified Public Accountants Co., Ltd. were approved to be retained respectively as the international and PRC auditors of the Company for 2006. It was resolved that consent be given to the resignation of Mr. Zhang Zuzhong as the Deputy Chairman of the Company and a member of the nomination committee of the Company and that Mr. Xu Guofei be elected as the Deputy Chairman of the Company and a member of the nomination committee of the Company. It was also resolved that Mr. Lu Qing be nominated as the candidate of a Director of the 5th Term Board, and that Mr. Wu Liulin be ceased to be the Chief Accountant of the Company, and Ms. Chen Ping be resigned as the Deputy General Manager of the Company and Secretary to the Board. It was resolved that Mr. Wu Liulin be appointed as the Deputy General Manager of the Company, and that Mr. Shen Jianlong be appointed as the Chief Accountant of the Company and the Secretary to the Board. The resolution of the "Settlement plan for non-operating capital appropriation of the controlling shareholder" was also passed. It was resolved that a joint venture named Nanjing Huaxian High Technology Company Limited (南京華顯高科有限公司) be established.

The announcement of aforesaid resolutions passed at board meeting was published in the China Securities Journal, Shanghai Securities News, Hong Kong Ta Kung Pao and The Standard on 21 April 2006.

- (2) On 26 April 2006, the Company held the 9th meeting of the fifth Board of Directors with approved written resolutions. The meeting approved the 2006 first quarterly report of the Company.
- (3) On 8 May 2006, the Company held the 10th meeting of the fifth Board of Directors with approved written resolutions. The meeting approved the Assignment of Debt Agreement entered into by the Company, Jiangsu International Trust & Investment Corporation Limited ("Jiangsu International Trust") and Jiangsu Province Investment Management Company Limited. It was also resolved to approve the Equity Transfer Agreement entered into by the Company and Jiangsu International, pursuant to which Jiangsu International Trust would use its equity interest in Hua Fei Colour Display Systems Company Limited to discharge the debts and interests owed to the Company based on the estimate of relevant assets valuation.

The announcement in relation to the transfer of 25% equity interest in Hua Fei Colour Display Systems Company Limited to discharge the debt was published in the China Securities Journal, Shanghai Securities News, Hong Kong Ta Kung Pao and The Standard on 12 May 2006.

- (4) On 24 August 2006, the Company held the 11th meeting of the fifth Board of Directors at the headquarters of the Company, at which the 2006 interim report of the Company and its summary were approved.
- (5) On 26 October 2006, the Company held the 12th meeting of the fifth Board of Directors with approved written resolutions, at which the 2006 third quarterly report of the Company was approved.
- (6) On 8 November 2006, the Company held an extraordinary board meeting with approved written resolutions, at which the agreement to use the Assets for discharge of the Debt entered into by the Company and Panda Electronics Group Limited and continuing connected transactions were approved. Amendment to the Articles of Association of the Company was also approved.

The announcements in relation to Panda Electronics Group Limited to repay fund appropriated by it by way of non-cash assets, and the continuing connected transactions were published in Shanghai Securities News, China Securities Journal, Hong Kong Ta Kung Pao and The Standard on 16 November 2006 and 18 December 2006 respectively.



Report of the Board of Directors

Day-to-day Operation of the Board of Directors (Continued)

During the Reporting Period, the Board of Directors of the Company strictly complied with any resolutions as approved at the general meeting and will diligently seek the best interest of the Company and shareholders pursuant to the principles of “honesty and industriousness”.

Press for Information Disclosure

During the Reporting Period, discloseable information of the Company was published on Shanghai Securities News, China Securities Journal, Hong Kong Ta Kung Pao and The Standard.

Principal Activities

The principal activities of the Company and its subsidiaries are the development, production and sale of satellite communication system, electromechanical and IT products.

Turnover and Contribution by Business Segment

An analysis of consolidated turnover by business activities and their contribution to profit (loss) of the Company under the accounting principles generally accepted in Hong Kong is as follows:

Contribution to Group's Type of products	Turnover RMB'000	operating profit/(loss) RMB'000
Electronic manufacturing products	237,224	11,652
Electronic manufacturing products	179,562	24,881
Electromechanical products	219,624	3,097
Electronic information products	192,728	16,306
Others product	51,835	2,523
Unallocated expense	—	(133,629)
Interest revenue	—	4,296
Operating loss	—	(70,874)
Finance costs	—	(54,139)
Gain on disposal of interests in associates	—	—
Share of results of associates	—	230,730
Profit before taxation	—	105,717

Financial Summary

A summary of the Group's results and assets and liabilities for the last five financial years, prepared in accordance with accounting standards generally accepted in Hong Kong, is set out on “II. Accounting Figures and Financial Highlights”.



Net Assets Per Share

The details of the net assets per share at the balance sheet date for each of the three years ended 31 December 2006 are as follows:

(1) As prepared in accordance with accounting principles generally accepted in Hong Kong:

	2006	2005	2004
Net assets per share (Net assets / Total number of shares) (Unit: RMB)	2.10	1.96	1.82
Rate of increase	7.14%	7.69%	5.81%

(2) As prepared in accordance with PRC accounting standards:

	2006	2005	2004
Net assets per share (Net assets / Total number of shares) (Unit: RMB)	2.06	1.92	1.80
Rate of increase	7.29%	6.67%	4.65%

Purchase, Sale or Redemption of the Listed Securities of the Company

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

Pre-emptive Rights

There is no provision for pre-emptive rights according to the relevant laws of the People's Republic of China and the Company's Articles of Association.

Directors' and Supervisors' Remuneration

During the year, the aggregate remuneration of the Directors and Supervisors amounted to RMB128,160,000 and RMB380,000 respectively, exclusive of their pension scheme contributions. Save as disclosed above, the Company did not offer any emoluments, allowances, or bonuses to the directors and supervisors.

The emoluments paid or payable by the Company to each of the directors and supervisors was less than RMB240,000. The pension scheme for executive directors and supervisors was included as part of the staff pension scheme of the Company as there was no other special arrangement.

Highest Paid Individuals

The five highest paid individuals of the Company during the year were technology specialists and marketing staff of the Company.



Report of the Board of Directors

Arrangements to Purchase Shares or Debentures by Directors, Supervisors and Senior Management

At no time during the year 2006 was the Company a party to any arrangements to enable the Directors, Supervisors or Senior Management Staff or any of their spouses or children under 18 to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other corporate body.

Directors' or Supervisors' and Senior Management Staff's Interests in Contracts

There has been no contract of significance at any time during the year to which the Company or its subsidiaries was a party and in which a director, supervisor or senior management had a material interest.

Service Agreement for Directors and Supervisors

Service agreements have been signed between the Company and all Directors and Supervisors. The term of service of each agreement is for a term of three years.

None of the directors or supervisors has entered into any contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

Privilege of Directors, Supervisors and Senior Management

During the year, no privileges were enjoyed by the directors, supervisors or senior management of the Company.

Material Contracts with PEGL

Save as the agreement in relation to the asset reorganization entered into 2000, no material contract was entered during the Reporting Period.

Convertible Securities, Options, Warrants or Similar Rights

The Company had not issued or granted any convertible securities, options, warrants or similar rights up to 31 December 2006.

Pension Scheme

The Company participated in a pension scheme established by the government. In accordance with the terms of the scheme, the annual contribution should be equivalent to 20% of the salary of the employees. The pension of present and retired employees of the Company is protected by the Nanjing Social Labour Insurance System Co-ordinating Committee.

Except for the annual contribution, the Company has no further obligation in relation to the pension scheme.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of this business were entered into by the Company or existed during the year.



Results and Distribution of Profit

The operating results of the Company for the year ended 31 December 2006 and the financial status of the Company and the Group on that date are set out in the financial statements prepared in accordance with accounting principles generally accepted in Hong Kong and PRC accounting standards.

After the approval by Yue Hau Certified Public Accountants Co., Ltd. and Horwath Hong Kong CPA Limited under the PRC accounting standards, the Company realized net profit after tax of RMB891,470,000 in 2006; under the accounting principle generally accepted in Hong Kong, the Company realized net profit attributable to shareholders of RMB92.761 million in 2005. At the end of the Reporting Period, the profit distributable to the shareholders was 931,100,000. In accordance with the related stipulations of profit distribution in the Articles of Association of the Company, the profit after tax realized in 2006 of the Company 274,180,000.

The Board of Directors was in the view that final dividend as at 31 December 2006 would not be distributed and no capital reserve would be transferred to increase share capital and this proposal needed to be approved in the shareholders' meeting.

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Company and the Group, as at 31 December 2006, are set out in note to the financial statements prepared under accounting principles generally accepted in Hong Kong.

Interest which was capitalised during the year is set out in note to the financial statements prepared under accounting principles generally accepted in Hong Kong.

Reserves

The changes in the reserves of the Group for the year are set out in the Consolidated Statement of Changes in Equity prepared under accounting principles generally accepted in Hong Kong and notes to the financial statements prepared under PRC accounting standards.

Fixed Assets

Details of the movements in fixed assets during the year are set out in the financial statements prepared under accounting principles generally accepted in Hong Kong and the financial statements prepared under PRC accounting standards.

Subsidiaries

Information on the subsidiaries of the Company is set out in the financial statements prepared under accounting principles generally accepted in Hong Kong.

Code of Best Practice

During the Reporting Period, the Directors of the Company were not aware of any information which reasonably showed that the Company did not comply with the requirement of the Code of Best Practice set out in the Appendix 14 of the Listing Rules stipulated by the Stock Exchange of Hong Kong Limited.



Report of the Board of Directors

Confirmation by Independent Non Executive Directors on Connected Transactions

The independent non-executive directors of the Company have, in such capacity, reviewed the connected transactions referred to in the financial statements prepared under accounting principles generally accepted in Hong Kong and note 8 to the financial statements prepared under PRC accounting standards and confirmed that:

1. such transactions have been entered into by the Company in the ordinary and usual course of its business;
2. the transactions have been entered into either (1) on normal commercial terms; or (2) where there is no available comparison, on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
3. such transactions have been entered into either (1) in accordance with the terms of the relevant agreement governing such transactions; or (2) (where there is no such agreement) on terms no less favourable than terms available to third parties.

Annual General meeting

The Board decided to hold the Annual General meeting on 12 June, 2007.

By Order of the Board
Li Anjian
Chairman

Nanjing, the PRC
25 April 2007