

Chairman's Statement



Chairman
Li Anjian

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, mobile telecommunication products, electromechanical products, electronic information products and electronic manufacturing business.

In 2007, the Company continued to implement internal reforms, enhance its industrial structure, insist on making scientific development and technological progress, strengthen fundamental management, improve the internal control system, and further standardize its operation and prevent operating risks. It made great strides in principal businesses such as satellite communication, electromechanical, electronic manufacturing and electronic information products. Meanwhile, the Company paid great attention to the development of joint ventures and strengthened its management services to facilitate and promote the fast development of sino-foreign joint ventures. ENC, BMC and other joint ventures continued to achieve sustainable development, to ensure stable income generated from the Company's investments.

Under the PRC accounting standards, revenue from operations of the Company for the year amounted to RMB1,009,935,700, representing an increase of 10.84% as compared with that of last year; profit of operations amounted to RMB115,937,200, representing an increase of 20.82% as compared with that of last year; net profit amounted to RMB89,092,700, representing an increase of 2.87% as compared with that of last year. Under the HKFRSs, revenue from principal operations of the Company for the year amounted to RMB994,000,000, representing an increase of 13% as compared with that of last year; profit of principal operations amounted to RMB146,000,000, representing an increase of 6.50% as compared with that of last year; net profit attributable to shareholders amounted to RMB112,000,000, representing an increase of 20.28% as compared with that of last year.



Chairman's Statement

A. Principal operating results of the Company during the reporting period *(Continued)*

2. Principal operating income and segmental information classified by businesses or products *(prepared under PRC Accounting Standards for Business Enterprises)*

Unit: RMB'000

Business or product	Principal operating income	Principal operating costs	Principal operating gross profit margin (%)	Revenues from principal operation increase(+)/decrease (-) over last year	Principal operating costs increase (+)/decrease(-) over last year	Principal operating gross margin increase(+)/decrease(-) over last year
Electronic manufacturing	306,753	254,132	17.15	28.46	32.15	(2.32)
Electronic information	278,775	239,002	14.27	43.89	38.18	3.54
Electromechanical	185,626	151,014	18.65	(16.04)	(16.78)	0.73
Satellite communications	197,370	150,256	23.87	9.92	14.42	(3.00)
Others	28,386	27,275	3.91	(45.27)	(58.77)	31.47
Total	996,910	821,679	17.58	12.64	10.41	1.66

3. Principal operations by geographical regions

The principal operations of the Company mainly span across different regions in China.



4. 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. In 2007, ENC took initiative to explore markets and constantly enhanced the competitiveness of its products, becoming an internationally leading enterprise in R&D and manufacturing of mobile base stations. In particular, its TD-SCDMA was awarded a tender by China Mobile Limited, which laid a solid foundation for the current and future development. It achieved sustainable and steady growth in its production and operation.

Under the PRC accounting standards for Business Enterprises, operating revenue of ENC for 2007 amounted to RMB15,733,000,000, representing an increase of 37.14% as compared to the corresponding period of last year; net profits amounted to RMB519,000,000, representing an increase of 32.40% as compared to the corresponding period of last year. Under HK GAAP, net profits of ENC for 2007 amounted to RMB574,000,000, representing an increase of 52.55% as compared to the corresponding period of last year.

(2) Beijing SE Putian 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 2007, BMC continuously developed new products, constantly launched new mobile phones, enhanced its production capacity, and enlarged its production scale and market share. The sales of its mobile phones achieved a considerable increase, and it became the sole internal global mobile production center of Sony Ericsson.

Under the PRC accounting standards for Business Enterprises, operating revenue of BMC for 2007 amounted to RMB32,642,000,000, representing an increase of 20.80% as compared to the corresponding period of last year; net profits amounted to RMB748,000,000, representing an increase of 28.97% as compared to the corresponding period of last year. Under HK GAAP, net profits of BMC for 2007 amounted to RMB763,000,000, representing an increase of 28.47% as compared to the corresponding period of last year.



Chairman's Statement

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

4. Operation of the principal controlling and investee Companies *(Continued)*

(3) Hua Fei Colour Display Systems Company Limited ("Hua Fei Company")

Hua Fei Company is held as to 25% by the Company, 20% by Nanjing Hua Dong Electronics Information Technology Holdings Limited ("Hua Dong Electronics") and 55% by LG Displays International Led ("LP"). Its principal operations include development, design and manufacture of colour image tubes, colour monitor tubes and other colour display system products, their spare parts and materials and related electronic products, as well as sales of self-produced products.

The substitution effect of flat panel display made the market demand of CRT products shrunk, intensified the market competition and led to a significant decrease in the selling price of CRT products; coupled with a surge in the price of imported accessories, Hua Fei Company suffered a relative significant loss of RMB364 million in 2007. Currently, Hua Fei Company is taking active measures to save cost, accelerate the development of new products, adjust product structure, so as to realize a turnaround from loss-making to profit-making.

Note: The 25% equity interest in Hua Fei Company held by the Company was transferred by Jiangsu International Trust & Investment Corporation Limited ("Jiangsu International Trust") to the Company in satisfaction of a debt in 2006. (For details, please refer to the announcements published in China Securities Journal, Shanghai Securities News, Ta Kung Pao and The Standard in Hong Kong on 11 May 2006 and announcements published in China Securities Journal and Shanghai Securities News on 2 June 2007 and in Hong Kong Ta Kung Pao and The Standard in Hong Kong on 4 June 2007.)

5. Major suppliers and consumers

As at 31 December 2007, the aggregate turnover of the five major customers of the Company accounted for 45.74% of the turnover of the Company for the year, of which turnover from the largest customer accounted for 19.54% of turnover of the Company for the year.

The aggregate amount of purchase from the five major suppliers of the Company accounted for 26.74% of the total amount of purchase made by the Company for the year, of which the purchasing amount from the largest supplier accounted for 8.03% 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.



A. Principal operating results of the Company during the reporting period *(Continued)*

6. Outlook of the Company's Future Development

- (1) Development trend of the business which the Company is in and the market pattern which the Company is facing

After business structure adjustment and business layout optimization in recent years, the Company has primarily set its development direction towards satellite communication business, mobile communication business, electromechanical business, electronic information business and electronic manufacturing and gradually developed intelligent products and green products. Electronic industry develops rapidly and covers wide range of uses. New products emerge one after another. There had been integration of various electronic products and formation of a network formed by different products. All these suggest a bright development prospect in the industry. Satellite communication has already become an emerging business and new economic growing point. The fusion of satellite communication with the Internet and land mobile network is taking satellite communication into a new realm. With the rapid development of mobile communication and increasing investment into telecommunication, growth of telecommunication business is secured. Construction of 3G network in the PRC will bring the industry to a periodic climax. Electromechanical integration is the global development trend of researching neotechnic products, as well as a development goal of technical strategy of mechanical industry in the country. In the next few years, electronic manufacturing will continue to grow at a recognizable speed, while electronic information industry around the world will step up its structural adjustment pace. Tremendous demand from rising needs for information products and network services provides room for further development in the information product industry.

As electronic and information products rely heavily on technology, the life-span of such products is short, the market trend is constantly changing and competitions among products are fierce. Regarding the future development, the Company will face both excellent opportunities and huge challenges.

- (2) Development strategy of the Company

The overall development strategy of the Company is to focus on technological research and effectively employ its technological resources, so as to further achieve innovation of business and gradually develop the Company into a R&D and production base of satellite communication, and at the same time leap into a leading position in the country's electromechanical industry, information technology business and electronic manufacturing business with gradual development in intelligent products and green products, forging the Company onwards to become a comprehensive and international high technology enterprise.



Chairman's Statement

A. Principal operating results of the Company during the reporting period *(Continued)*

6. Outlook of the Company's Future Development *(Continued)*

(3) Risk factors

Due to the changes in the macro-economy, there are increased uncertainties and risks in the process of economic development. We should thoroughly conduct scientific analysis, enhance the ability of anticipation and spontaneity, and be alerted to opportunities and aware of risks.

First of all, as the Government has focused on and geared up the macro economic control, the Company faces strategic risks due to steadfast financial policies and tightened currency policies. Secondly, as the Company's core business is not imminent enough, the Company's competitiveness is comparatively weak and it is facing market risks in the increasingly fierce market. Thirdly, as technological factor is pivotal in electronic production, and old models of electronic products fade out rapidly, the Company is facing technical risks.



A. Principal operating results of the Company during the reporting period *(Continued)*

6. Outlook of the Company's Future Development *(Continued)*

(4) Development plans in the forth-coming year

2008 is a key year to the Company's development. The Company will fully implement the philosophy of scientific development, to be open-minded and innovative in order to seize opportunities and deal with challenges. By enhancing the ability of sustainable growth, great development will be achieved in good time. The main tasks in the forth-coming year are as follows:

- (i) to strengthen internal reforms, adjust enterprise structures, optimize allocation of resources and enhance fundamental management, so as to make the principal operations more prominent;
 - (ii) to enhance scientific research, further introduce technology and sharpen the enterprise's competitive edges, so as to accelerate transformation of technological outcomes and replacement of products with new models;
 - (iii) to insist on market orientation, strengthen market construction, open up new sales channels and expand market share, so as to increase market competitiveness;
 - (iv) to take proper measures to train competent personnel, actively recruit talents and renovate the incentive system, so as to build up a team which accord with the Company's development;
 - (v) to reinforce international collaboration, continue to focus on joint-venture corporate development, further reinforce management service of joint-venture corporations and facilitate continued rapid growth of joint-venture corporations, so as to increase income from investment.
- (5) The target operating revenue of the Company in 2008 is RMB1,186,340,000. The operating expenses will be limited to RMB285,500,000 or below, out of which operating cost to be at RMB24,970,000, management cost RMB195,610,000 and financial cost RMB64,920,000.

B. Conditions of investment of the Company

No funds were raised by the Company during the reporting period. The Company did not utilize any raised funds or continue any use thereof commencing from the previous periods. Neither alteration to projects nor material investment financed by other non-raised funds was made.



Chairman's Statement



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 PRC Accounting Standards for Business Enterprises are as follows:

Unit: RMB'000

Item	2007	2006	Increase/ (decrease) (%)	Main Reasons
Bills Receivable	2,131.70	31,775.27	(93.29)	Realized bills upon maturity
Prepayments	51,028.78	76,380.47	(33.19)	Settlement of part of the material payment
Other Receivables	57,076.37	555,531.78	(89.73)	Repayment of liabilities due to the Company by 25% equity interest in Huafei Company from Jiangsu Information Corporation
Total current assets	1,059,161.85	1,716,035.11	(38.28)	Repayment of liabilities due to the Company by 25% equity interest in Huafei Company from Jiangsu Information Corporation



Chairman's Statement

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

1. Financial status (Continued)

Item	2007	2006	Increase/ (decrease) (%)	Main Reasons
Long term equity investment	976,375.10	537,994.92	81.48	Repayment of liabilities due to the Company by 25% equity interest in Huafei Company from Jiangsu Information Corporation
Construction in progress	10,257.70	16,486.34	(37.78)	Transition of part of the construction in progress to fixed assets
Intangible assets	44,556.46	12,734.19	249.90	Receipt of land use rights
Long term deferred expenses	4,098.98	0.00		Renovations of buildings
Total non-current assets	1,530,473.90	1,055,513.09	45.00	Repayment of liabilities due to the Company by 25% equity interest in Huafei Company from Jiangsu Information Corporation
Bills payable	54,029.93	37,794.64	42.96	Bills issued not yet matured
Salaries payable	8,601.85	17,791.75	(51.65)	Welfare presented with actual payment instead of provision of 14% of total salary
Other payables	94,320.92	203,486.84	(53.65)	Return of guarantee fund
Long term payables	17,921.10	34,990.82	(48.78)	Payment of obligations of finance lease
Other non-current liabilities	600.00	0.00		Receipt of government subsidies
Loss in asset impairment	38,451.82	17,447.57	120.38	In 2006, the liquidity of old inventories were improved, reversal of provisions of any fall in the price of inventories
Non-operating income	9,496.29	4,193.60	126.45	Government compensation for demolishing its subsidiaries's building
Non-operating expenses	21,927.63	3,040.49	621.19	Loss arising from repayment of liabilities due to the Company by 25% equity interest in Huafei Company from Jiangsu Information Corporation
Income tax	7,227.00	3,035.63	138.07	Growth in profit of subsidiaries



Chairman's Statement

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

2. Liquidity of capital

In accordance with Hong Kong financial reporting standards, the gearing ratio of the Company (the ratio between total liabilities and total assets), current liabilities, liquidity ratio and quick ratio were 41.70%, RMB43,000,000, 0.96 and 0.68 respectively as at 31 December 2007 as shown in the consolidated financial statements of the Company.

Cash: bank balances and cash amounted to RMB483,000,000 as at 31 December 2007 as shown in the consolidated financial statements of the Company.

Loans: short-term bank loans amounted to RMB711,000,000 as at 31 December 2007 as shown in the consolidated financial statements of the Company and basic interest rate per annum was approximately 7.29% (the basic interest rate per annum was 7.47% since 26 December 2007).

The Board believed that the Company can maintain or enlarge its existing bank facilities to meet various financial obligations.

D Potential changes in accounting policies and accounting estimates as well as the impact on financial conditions and operating results of the Company arising from adoption of the new PRC Accounting Standards for Business Enterprises

Adjustment of relevant items in the balance sheet of the Company in early 2007 arising from adoption of new PRC Accounting Standards for Business Enterprises

Since 1 January 2007, the Company implemented the new PRC Accounting Standards for Business Enterprises. In compliance with the Accounting Standard for Business Enterprises No. 38 - First time adoption of Accounting Standards for Business Enterprises promulgated by the Ministry of Finance and the regulations of relevant documents issued by CSRC, the Company conducted retrospective adjustment of relevant items in the balance sheet for early 2007 of the Company during the preparation of its year-end financial report of 2007. Specific details of the adjustment are set out as follows:

1. Long term equity investment

Pursuant to the relevant regulations of the new accounting standards, the Company adjusted the differences between the borrowers' long-term equity investment calculated by equity method as of 31 December 2006 and increased long term equity investment and retained earnings by RMB44,057.65 and RMB44,057.65 respectively on 1 January 2007, out of which the equity interests attributable to the parent company increased by RMB30,840.36 and the equity interests attributable to minority shareholders rallied by RMB13,217.29.



D Potential changes in accounting policies and accounting estimates as well as the impact on financial conditions and operating results of the Company arising from adoption of the new PRC Accounting Standards for Business Enterprises (Continued)

Adjustment of relevant items in the balance sheet of the Company in early 2007 arising from adoption of new PRC Accounting Standards for Business Enterprises (Continued)

2. Deferred income tax assets

The Company compared the carrying value and tax basis of assets and liabilities on 31 December 2006 in accordance with relevant regulations under the new accounting standards, whereby the Company confirmed the temporary differences of taxable and deductible items and calculated deferred income tax assets and deferred income tax liabilities. Certain subsidiaries which incurred loss were likely to fail to obtain sufficient taxable amount. There was little possibility of a reversal of the deductible temporary differences. Based on its principle of stability, the Company did not recognize that portion of deferred income tax assets. On 1 January 2007, deferred income tax assets and retained earnings increased by RMB4,562,258.03 and RMB4,562,258.03 respectively. Among which equity interests attributable to the parent company increased by RMB3,971,673.67 and equity interests attributable to minority shareholders rallied by RMB590,584.36.

3. Capital accounts of salaries payable

The Company strictly complied with the regulations of the new accounting standards to analyze, reorganize and classify relevant capital accounts on 31 December 2006. Salaries payable was adjusted upward on 1 January 2007 by RMB6,207,957.30 and tax payable decreased by RMB583,178.34. Interest payable increased by RMB1,303,000.00 and other payables decreased by RMB6,927,778.96.

4. Capital Reserve

Pursuant to the new accounting standards, the Company should adjust the capital reserve in accordance with the differences between long term equity investment, initial investment cost as well as cash paid, transferred non-cash assets and the carrying value of liabilities undertaken arising from the merge of enterprises under common control, and correspondingly lowered the capital reserve and increased retained earnings by RMB511,756.61 and RMB511,756.61 respectively on 1 January 2007.

5. Surplus reserve

The Company complied with the new accounting standards to adjust relevant items of assets and liabilities, upon which the provisions were once again made for the surplus reserve in 2006. Surplus reserve recovered amounted to RMB1,505,327.40 and retained earnings increased by RMB1,505,327.40.

6. Minority interests

Upon the implementation of the new accounting standards, the Company undertook excessive loss from minority shareholders of its subsidiaries RMB2,811,234.89 and increased equity interests attributable to minority shareholders by RMB2,811,234.89 on 1 January 2007. Retained earnings attributable to the parent company decreased by RMB2,811,234.89.

Li Anjian
Chairman

Nanjing, the PRC
27 March 2008

